



The Road to Net Zero

Arion Bank's updated climate targets up to 2030

October 2025

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Introduction

In this report, we present Arion Bank's updated climate targets for 2030 and the pathway we have set to support the transition towards net zero. The targets are set in accordance with the Icelandic government's goal to achieve net zero by 2040^a and the Paris Agreement's objective to keep global warming below 1.5°C.

The purpose of this report is to provide our stakeholders with information about the Bank's goals on reaching net zero. The main stakeholders of the Bank are customers, shareholders and bondholders, employees, and society as a whole. The report discusses Arion Bank's targets and achievements and does not cover subsidiaries unless otherwise stated.

Arion Bank has an active sustainability committee, chaired by the CEO. The committee's main role is to monitor the Bank's performance in relation to sustainability policies and commitments, ensure that ESG factors are considered in decision-making and planning, and approve sustainability policies. Sustainability risk management is defined as part of the Bank's overall risk management system. The sustainability committee has approved the content of this report.

Methodology and updated targets

This is Arion Bank's second report on the road to net zero. At the beginning of 2024, the Bank published a report on financed carbon emissions, where the first targets were set based on the Business Climate Guide and government targets. Target-setting is based on calculations of the Bank's financed carbon emissions, i.e., emissions from the loan portfolio, proprietary investments, and sovereign bonds. The calculations follow the methodology of the Partnership for Carbon Accounting Financials (PCAF), which is recognized by both the Science-Based Targets Initiative (SBTi) and the former Net-Zero Banking Alliance (NZBA)*. The Bank's targets are based on the results published in the Bank's reports on financed carbon emissions.

The targets previously set by the Bank for reducing financed emissions from the loan portfolio have now been revised, taking into account asset class-specific scenarios aimed at keeping global warming below 1.5°C. In developing the targets, the business sector was consulted to ensure that the targets align with the strategies and plans of individual industries.

Science-based targets set

Arion Bank has recently endeavoured to align with the SBTi methodology in formulating science-based targets for reducing greenhouse gas emissions by 2030.

In this work, the corporate net zero standard issued by SBTi has been used. The work was well underway, and the intention was to have the targets approved by the end of 2025 when a new SBTi standard was published in July this year. The new standard is specifically designed for setting science-based climate targets for financial institutions. Financial institutions have two years from the publication of the new standard to have their targets validated by SBTi. Therefore, Arion Bank will not seek SBTi validation for its targets this year but will further develop them to meet the requirements of the new standard.

Due to changes in methodology in the new standard, the targets presented in this report may be adapted to the new standard. Arion Bank also uses guidelines issued by NZBA in its target-setting. Targets are set for Arion Bank's own activities (scopes 1 and 2) and for a large part of the Bank's financed emissions (scope 3, category 15). In selecting industries for which targets have been set, those with the highest emissions in the Bank's loan portfolio were considered, as well as industries specified in the SBTi standard. Targets related to lending are therefore set for the Bank's residential mortgages and business loans in connection with aluminium production, fisheries, agriculture, energy production, real estate, transportation, coal, oil, and gas.

Short-term targets are set for 2030, and further work will be done on target-setting in connection with reaching net zero by 2040. The targets are timed in accordance with the Icelandic government's goals as they stood in mid-2025. At the time of publication of this report, changes to government targets are under consultation, and the Bank is closely monitoring developments. The Bank commits to reviewing and, if necessary, updating the targets at least every five years from when they are set.

The report highlights actions which promote and reinforce the Bank's target-setting and which are linked to its green product range, policies, customer engagement and risk management. There are still opportunities to further develop the path regarding actions, and work will continue in connection with ongoing target-setting.

Limitations

Data quality is one of the main challenges in calculating financed carbon emissions, as only a portion of companies in the consolidated balance sheet publish data on their own carbon emissions. The lack of data from companies therefore limits the accuracy of the report, both in terms of estimated emissions and estimated sizes related to emission intensity. Some data is based on estimates, and the Bank uses Vera, Creditinfo's sustainability solution, in such cases.

^a [Act on Climate Affairs](#)

* In October 2025, NZBA members agreed to move away from a membership-based alliance. It was then decided to continue to formalize guidance on setting climate targets. Following this decision, NZBA ceased operations. The NZBA guidelines on setting climate targets for banks, along with supporting materials, are the most widely used global guidance for target-setting on reducing carbon emissions. The guidelines will remain publicly available, and banks can therefore continue to use them in their ongoing target-setting and when preparing transition plans.



“To achieve net zero, cooperation between various stakeholders is essential, with the business sector seeking effective and sustainable solutions and authorities leading societal change in the right direction. The role of financial institutions on this journey is to support the transition and provide financing that advances this vision. Environmental and climate issues are important to Arion Bank, and our greatest impacts are through lending and investments.”

- Benedikt Gíslason, CEO of Arion Bank





Arion Bank's environmental & climate policy

We aim to be a role model in environmental and climate matters and to minimize our operational environmental impacts and greenhouse gas emissions. Human-induced climate change is one of the greatest challenges of our time, and it is essential to keep global warming within 1.5°C.

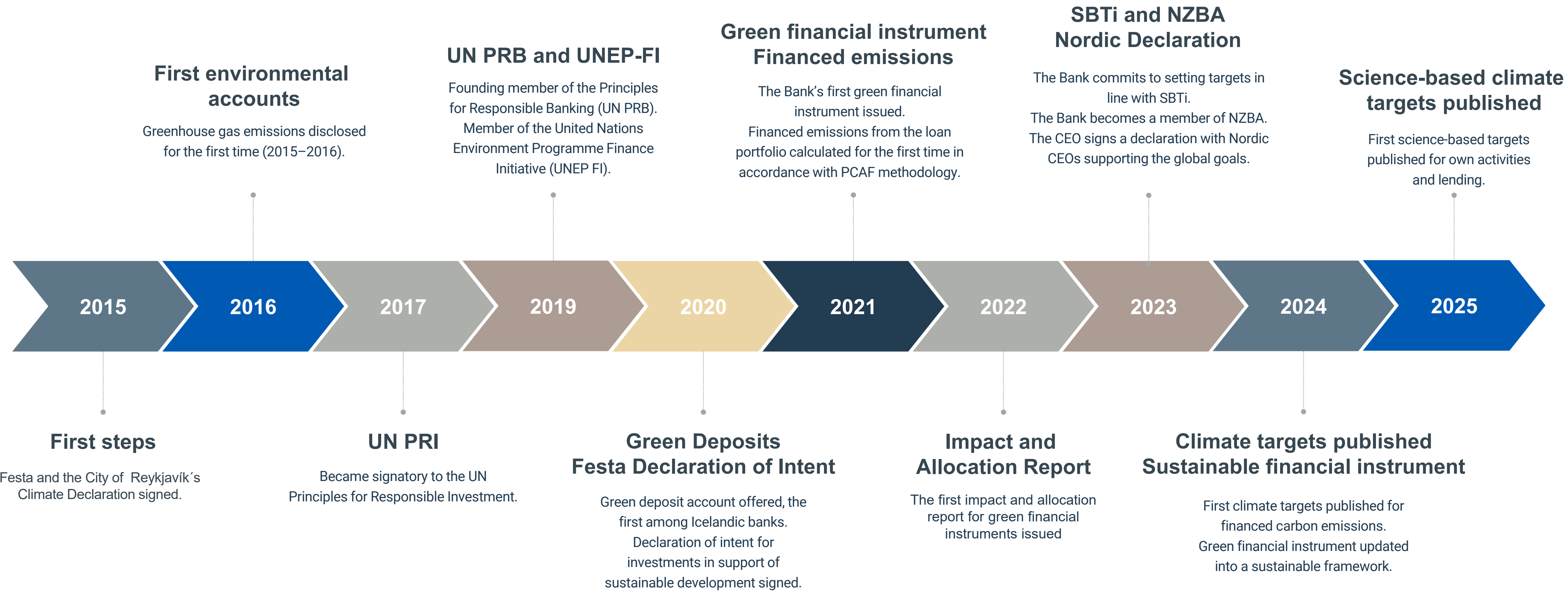
We intend to help Iceland meet its commitments under the Paris Agreement and other domestic and international environmental and climate accords. We support Iceland's ambitious goal of achieving net zero by 2040, and the Bank targets net zero in the same year.

Banks play a key role in financing progress. We focus on financing projects that support sustainable development and green infrastructure. We expect our suppliers to consider environmental and climate impacts in their operations.

We set targets and report performance on areas where we have the most impact, such as procurement, our own activities, lending, and investments. We will systematically increase employee knowledge of environmental issues and support our customers' journeys towards a greener future, aligned with the UN Sustainable Development Goals.



Stages in Arion Bank's climate journey



Commitments

In 2024, we encouraged over 15,000 companies to set science-based climate targets and invited business partners to a sustainability meeting. Arion Bank has published sustainability policies across various industries, where companies are urged to set climate goals and demonstrate progress.

Arion Bank has established an exclusion list for activities in which the Bank will not invest (own investments), provide corporate advice, or grant loans. Beyond this exclusion, the Bank will not engage in transactions with parties involved in activities that are illegal under national laws or regulations applicable to their operations.

Exclusion applies to companies engaged in the following activities:

- Activities that violate fundamental human rights, e.g., through slavery or forced labour.
- Controversial weapons production, i.e., landmines, cluster bombs, chemical weapons, biological weapons, and nuclear bombs.
- Companies whose main operations are based on the production of pornography or are directly connected to the production of such material.
- Companies involved in tobacco production.
- Companies generating income through gambling and/or betting, excluding activities which have been specifically licensed to do so.
- Oil exploration.
- Processing and/or extraction of fossil fuels for energy production, i.e., coal, peat, natural gas, and oil.



NZBA was an alliance of financial institutions at the global level, under the umbrella of the UN, where members committed to taking the lead on climate issues. In October 2025, this structure changed, moving away from the alliance format. Going forward, guidance will be available to all financial institutions without binding commitments.



Science-based Targets (SBTi) are goals grounded in climate science for companies and financial institutions for reducing greenhouse gas emissions to keep global warming below 1.5°C by the year 2100.

Nordic CEOs' Statement

The CEO of Arion Bank, Benedikt Gíslason, signed a declaration along with nearly 80 Nordic CEOs within Global Compact, a United Nations initiative on responsible business practices, in 2023. The declaration expressed support for the UN's global goals and the objectives of the Paris Agreement and encouraged increased action on climate issues.

The declaration called on companies and governments worldwide to accelerate the energy transition, reduce the use of fossil fuels, and boost investment in green infrastructure and energy solutions.



The pathway to net zero

Arion Bank is committed to achieving its net zero targets. Work will continue to secure approval of the Bank’s targets by the Science Based Targets initiative (SBTi), and we will maintain alignment with the guidelines of the Net-Zero Banking Alliance (NZBA).

The achievement of these targets, however, largely depends on government actions and continued infrastructure development related to energy transition, as well as the willingness of companies to advance their own sustainability agendas towards greater resilience and achieving net zero.

Under its transformation plan, the Bank is currently pursuing six strategic pathways. In addition, we continue to expand our product offering and implement measures that support a carbon-neutral economy.

Green product offering

Green products form the foundation of our approach to net zero and comprise four main categories. These include green deposits for individuals, businesses, and organizations; green mortgage loans for the purchase of environmentally friendly residential properties; green car loans for vehicles powered by renewable energy; and green corporate loans aligned with the Bank’s sustainable financing framework.

Sustainable finance framework

The finance framework defines the projects financed through green bond issuances. Projects eligible for green lending include those that promote energy efficiency, facilitate the transition to sustainable transport, certified real estate developments, sustainable fisheries, and the production of renewable energy.

Guarantee agreement with EIF

Through a guarantee agreement with the European Investment Fund (EIF), the Bank is able to provide loans of up to ISK 15 billion to Icelandic companies. This facility is funded under the InvestEU programme, which places particular emphasis on sustainability.

Sustainability policies for key industries

We have established sustainability policies for those industries that account for the largest share of financed carbon emissions within our loan portfolio. These policies outline incentives for companies in these sectors to adopt positive measures and define the framework for the types of businesses with which the Bank seeks to engage.

Client engagement and encouragement

We continue to engage with our clients across key industries with the aim of promoting greater sustainability and introducing green financing solutions.

Creditworthiness assessment of clients

The Bank has assessed ESG risk within its loan portfolio by industry and developed a heat map based on the evaluation of potential impacts from various risk factors across different sectors. These findings have been integrated into the Bank’s credit assessment system to ensure that ESG factors are considered at the individual client level for specified size thresholds and amounts.



Science-based climate targets and financed emissions



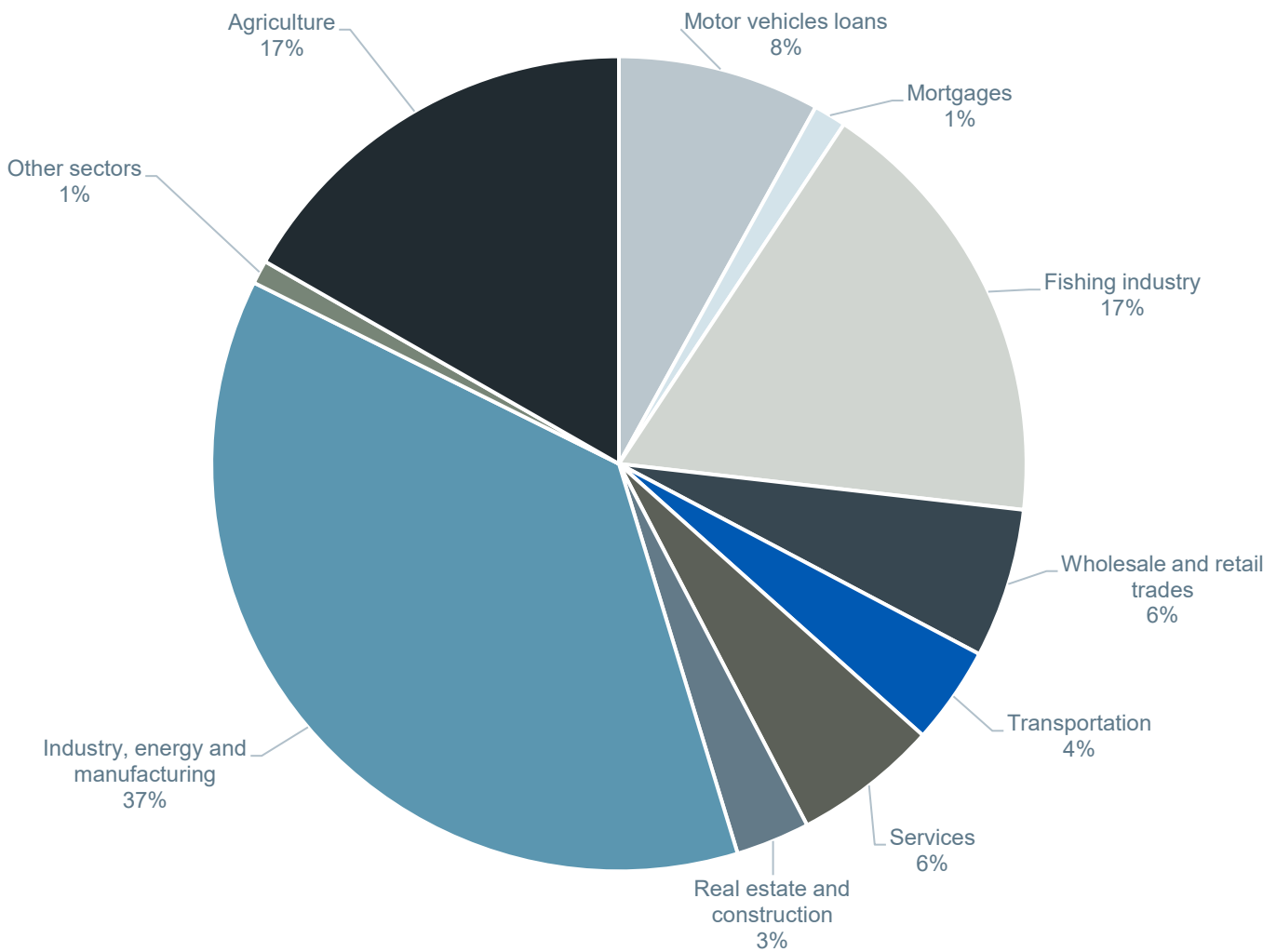
Financed emissions from Arion Bank's loan portfolio

Arion Bank is a member of the Partnership for Carbon Accounting Financials (PCAF), a global collaboration platform for financial institutions. The primary objective of PCAF is to harmonize the assessment of greenhouse gas emissions associated with lending and investment activities within the financial sector.

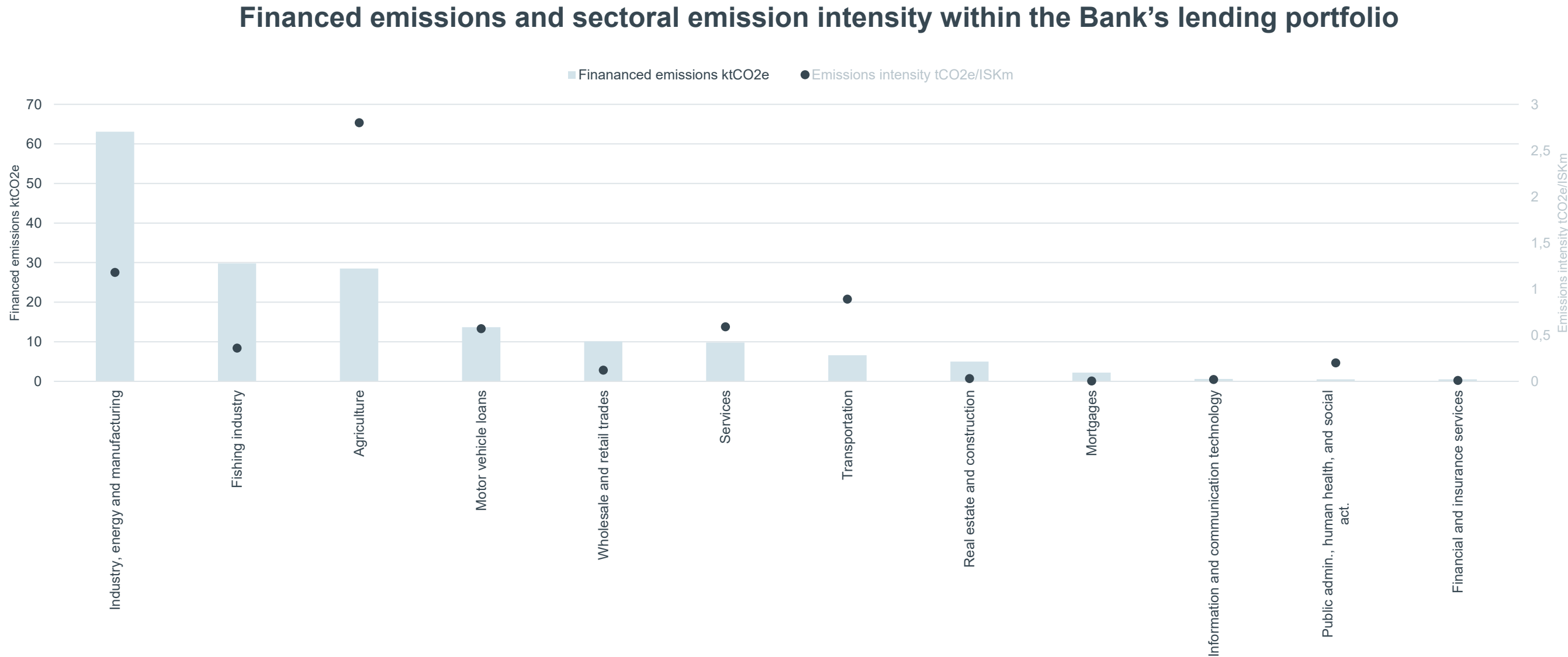
Every year, we publish information on the carbon footprint of financed emissions in accordance with the PCAF methodology, thereby promoting transparency regarding progress on climate-related matters. This analysis supports the management of climate-related transition risks, the development of climate-friendly financial products, and the setting of targets aligned with the Paris Agreement and Iceland's goal of achieving net zero by 2040.

The results presented reflect greenhouse gas emissions financed by Arion Bank in 2023. Calculations are based on the most recent and reliable data available at the time, using at least one-year-old data where more current information is not accessible.

The methodology for constructing emission factors has undergone minor adjustments to improve accuracy, which may result in slight variations in emission figures between years. Data from Vera, Creditinfo's sustainability solution, was utilized. Information for 2024, along with comparisons to previous years, will be published in Arion Bank's Annual and Sustainability Report for 2025.



Emissions from Arion Bank's loan portfolio



Financed emissions from Arion Bank's loan portfolio

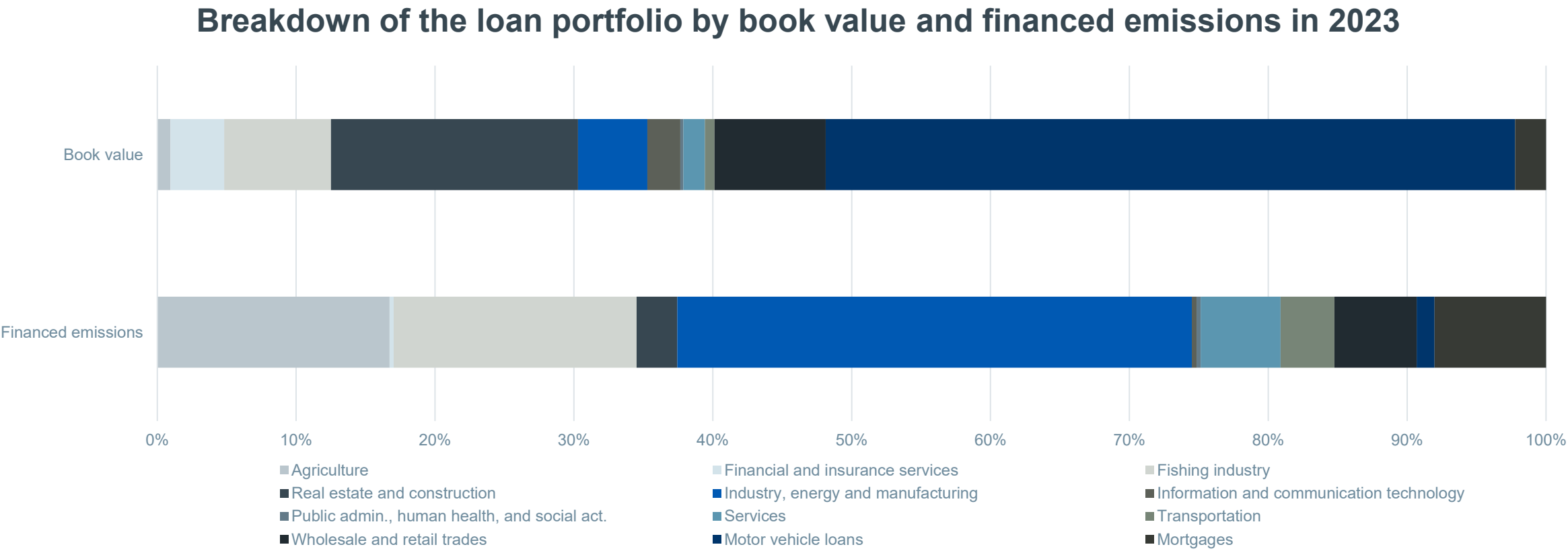
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Corporate lending accounts for 90% of the Bank's total financed emissions. These emissions increased by just over 3% year-on-year, rising from 140 ktCO₂e to 144.4 ktCO₂e. However, the emission intensity of business loans decreased slightly, from 0.29 tCO₂e per ISKm to 0.28 tCO₂e per ISKm. This means that each million ISK lent in 2023 resulted in proportionally lower emissions compared to 2022.

Emission intensity is used as a performance metric because loan volumes can fluctuate, whereas the ratio remains comparable and provides a clearer picture than absolute emissions alone. The sectors contributing the most to financed emissions are industry, energy and manufacturing, agriculture, and fisheries.

Agriculture has the highest emission intensity at 2.78 tCO₂e per ISKm, followed by industry, energy and manufacturing at 1.18 tCO₂e per ISKm. Transport shows a significant reduction in emission intensity, falling from 1.54 tCO₂e per ISKm to 0.89 tCO₂e per ISKm, due to improved methodology that brings estimates closer to actual emissions.

Arion Bank is committed to aligning its lending portfolio with the goals of the Paris Agreement and contributing to a net zero economy. As part of our commitment to transparency and accountability, we publish our targets and the methodologies used to set them. This work enables us to engage actively with clients, support their transition, and steer our lending portfolio towards lower emissions.

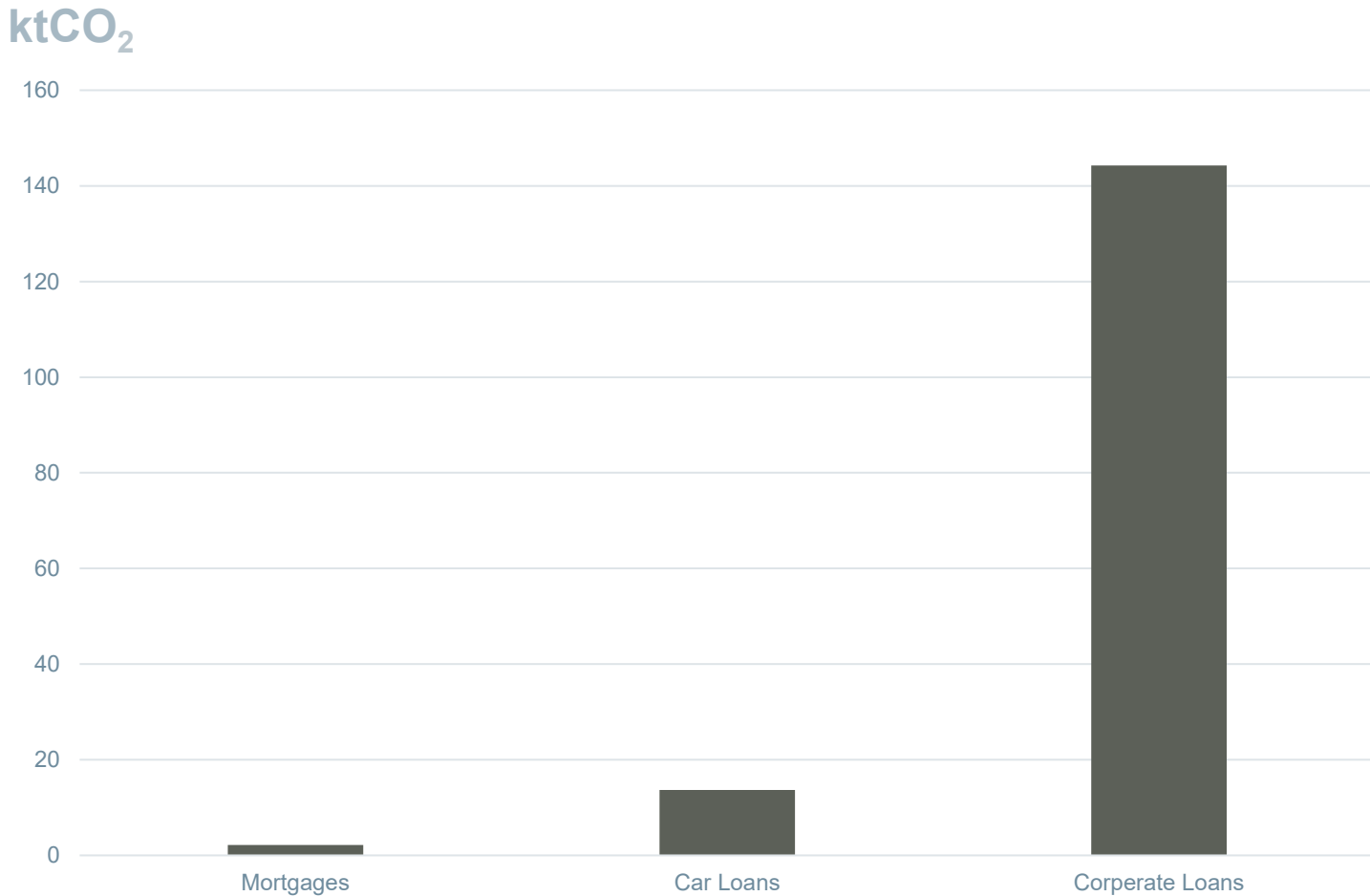


Arion Bank’s climate targets to 2030

When setting targets, we considered which sectors within corporate lending have the highest emissions and emission intensity. In addition, we followed guidance from the Net-Zero Banking Alliance (NZBA) and the Science Based Targets initiative (SBTi) on which sectors should have defined targets. The sectors identified by NZBA and present in Arion Bank’s loan portfolio include agriculture, aluminium production, transport, power generation, and residential and commercial real estate.

SBTi specifically requires targets for power generation and real estate. Given the significant lending activity in the fisheries sector at Arion Bank, we decided to set targets for this sector as well. Furthermore, targets have been established for oil, gas, and coal, even though these industries are not part of the Bank’s lending activities. This approach ensures alignment with international standards and supports the Bank’s comprehensive climate strategy.

Financed emissions of asset classes covered by the targets



Overview of targets

Asset classes		Short-term target to 2030	Net zero	Methodology
Own activities	Scope 1+2 (incl. offsets)	80% (Base year: 2015, reduction to now: 65%)	Net zero by 2040	SBTi, Corporate Near-Term Tool, vs. 2.3
Mortgages	Scope 2	Maintain low emission intensity (1,1 kgCO ₂ e/m ²)	Net zero by 2040	SDA, Scenario IEA Net zero 2050
Car loans	Scope 1+2	In development	Net zero by 2040	
Business loans				
Agriculture	Scope 1+2	Reduce emissions by 12% per ISKm Carbon binding targets under review	Net zero by 2040	SBTi FLAG approach
Aluminium production	Scope 1+2	Reduce emission intensity (tCO ₂ e/produced tonne of aluminium) by 15% (base year: 2023)	Net zero by 2040	SDA, Scenario IEA Net zero 2050
Energy production	Scope 1+2	Maintain low emission intensity (0.03 kg CO ₂ e/kWh)	Net zero by 2040	SDA, Scenario IEA Net zero 2050
Fisheries	Scope 1+2	Reduce emission by 29.4% per ISKm (base year: 2023)	Net zero by 2040	
Real estate	Scope 1+2	Reduce emission intensity (kg CO ₂ e/m ²) by 18% (base year: 2023)	Net zero by 2040	SDA, Scenario IEA Net zero 2050
Land transport	Scope 1+2	Reduce emission intensity (gCO ₂ e/t-km) by 24.7% (base year: 2023)	Net zero by 2040	SBTi, SDA Transport Tool, vs. 1.1.1
Sea transport	Scope 1+2	Reduce emission intensity (gCO ₂ e/t-km) by 41.9% (base year: 2023)	Net zero by 2050	SBTi, SDA Aviation Tool, vs. 2.0
Oil and gas	Scope 1+2	Maintain zero lending exposure	Net zero by 2040	Exclusion list
Coal	Scope 1+2	Maintain zero lending exposure	Net zero by 2040	Exclusion list

1.5 °C Harmonized targets

Science-based targets set for 9 industries

76% proportion of corporate loans covered by climate targets



Own activities

Emissions from Arion Bank’s own activities cover Scope 1 and Scope 2. Scope 1 emissions primarily arise from fuel consumption by vehicles used in the Bank’s operations, while Scope 2 emissions relate to electricity use and heating. Scope 2 emissions from electricity consumption are calculated based on market-based guarantees of origin, as Arion Bank purchases guarantees of origin with its electricity supply to ensure energy sourced from renewable production. Scope 3 emissions in categories related to purchased goods and services (categories 1–14) are also calculated, although no specific targets have been set for these categories.

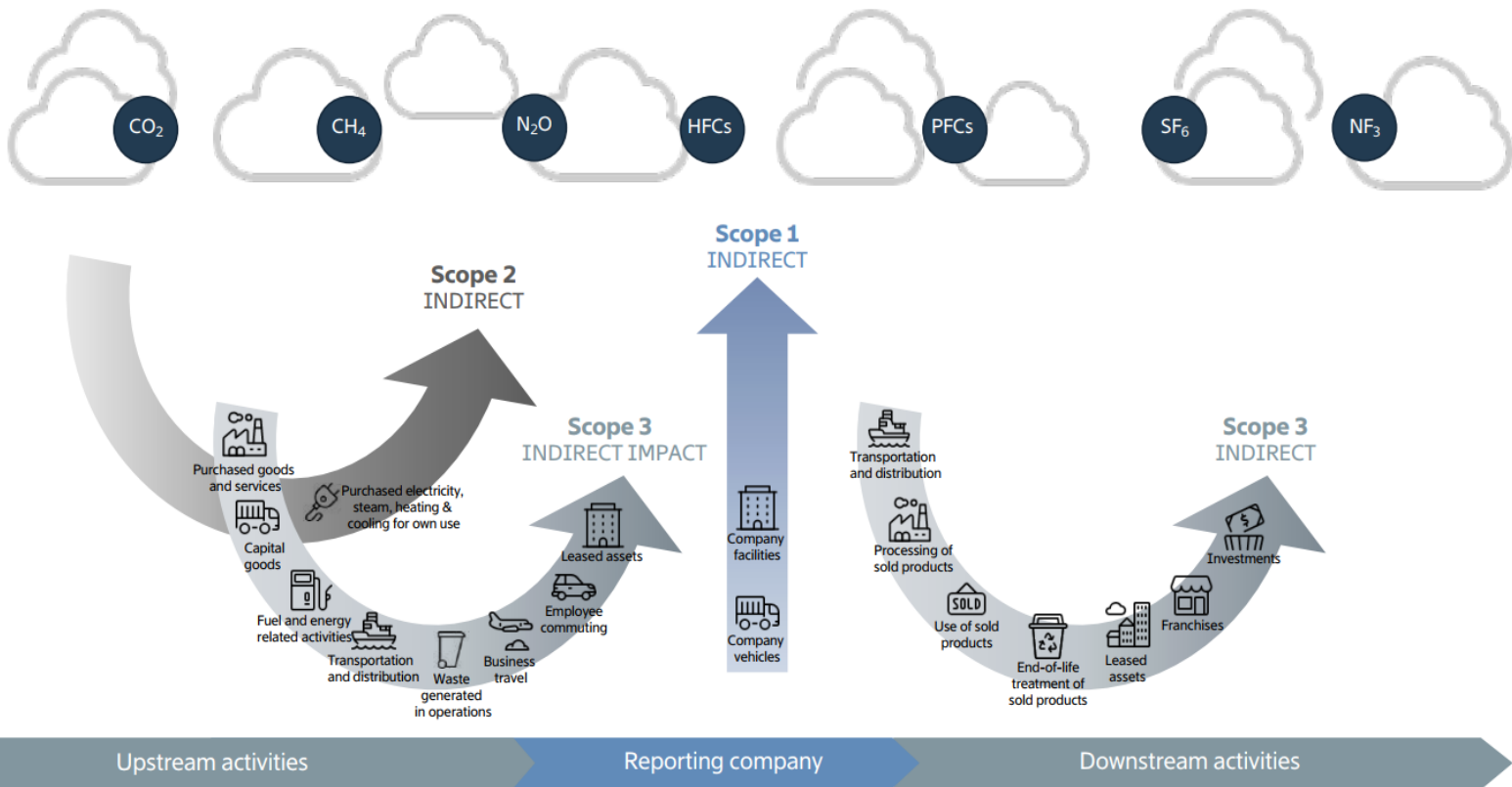
Total emissions from the Bank’s own operations, Scope 1 and Scope 2 (market-based), amounted to 54.2 tCO₂e in 2024, and including Scope 3 (categories 1–14), total emissions were 675.3 tCO₂e. The baseline year for Scope 1 and Scope 2 emissions is 2015, and figures for that year have been recalculated following the publication of updated emission factors for electricity and heating by the Environment Agency of Iceland.

Emissions from the Bank’s own activities are relatively low compared to financed emissions. Nevertheless, Arion Bank is committed to reducing emissions from own activities through a structured approach. Within Scope 3, business travel and employee commuting account for the largest share. Various measures have been implemented to encourage sustainable travel among employees. The main opportunities for further reductions in Scope 1 and Scope 2 lie in completely phasing out bank-owned vehicles powered by fossil fuels. In recent years, significant progress has been made in reducing emissions from own activities by downsizing office space and reducing the number of Bank-owned vehicles running on non-renewable energy sources.

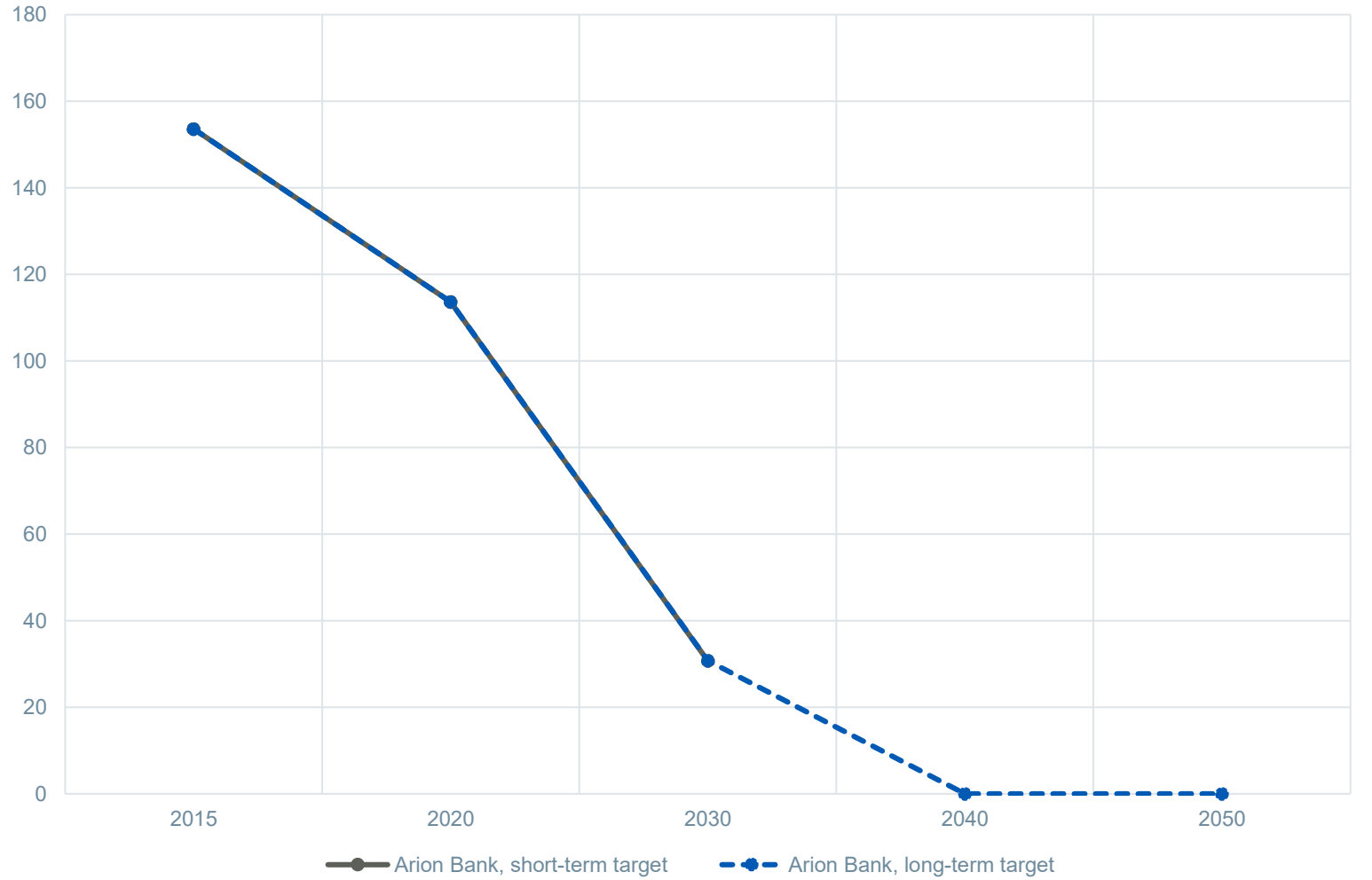
Net zero	2040
Target by 2030	80% reduction

In 2022, Arion Bank set a target to reduce emissions from its own activities, Scope 1 and Scope 2, by at least 80% by 2030, compared to the 2015 baseline. As part of developing near-term science-based targets, this commitment was reassessed to ensure alignment with the Paris Agreement and the goal of limiting global warming to 1.5°C. The review confirmed that the target is more ambitious than the minimum requirements under the Science Based Targets initiative (SBTi) methodology, and therefore the Bank maintains its goal of an 80% reduction by 2030. The long-term target is to achieve net zero by 2040.

No targets have been set for Scope 3 categories 1–14, as these emissions are insignificant compared to financed emissions, which fall under category 15 of Scope 3.



The pathway to net zero in Scope 1 and 2 tCO₂e



Mortgages

This category within Arion Bank’s climate targets covers residential mortgages granted to individuals for the purchase of housing. All residential properties in Arion Bank’s loan portfolio are located in Iceland.

Financed emissions are calculated using a methodology developed by COWI for Arion Bank. Energy consumption is estimated for each building, and the appropriate emission factor for the heating source is applied. The total floor area of the loan portfolio is known, enabling the establishment of benchmarks for emissions per square metre.

Energy use in Icelandic buildings, electricity and heating, is predominantly powered by renewable energy when considering local emissions. Approximately 90% of residential properties in Iceland use district heating. Of these, around 85% rely on municipal district heating systems, about 1.5% use other geothermal systems, and roughly 3% use oil or electricity for heating. The remaining 10% primarily use electricity for heating, with a small proportion utilising heat pumps^b.

Emission factors for renewable energy sources are low, resulting in significantly lower emissions associated with residential mortgages in Iceland compared to other countries. When setting targets, Arion Bank used a scenario from the International Energy Agency (IEA) for the pathway to net zero in the housing sector. Under SBTi guidelines, it is permissible to set targets to maintain emissions in categories where the transition to net zero is well advanced, which applies to Arion Bank’s residential mortgage portfolio.

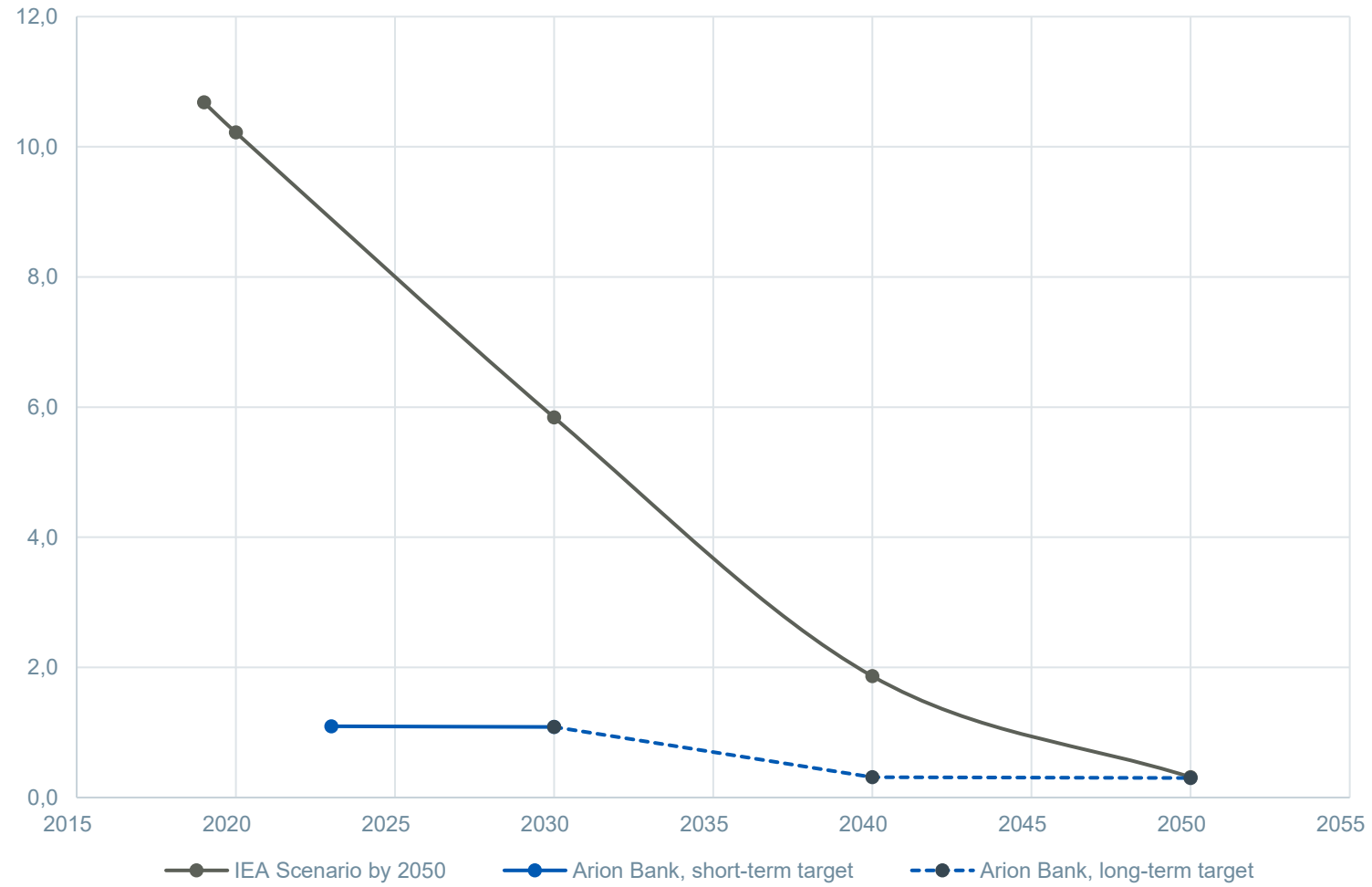
Net zero	2040
Target by 2030	Maintain 1,1 kg CO ₂ e / m ²

Financed emissions from Arion Bank’s residential mortgages totalled 2.2 ktCO₂e in 2023. Emissions in this category are therefore low compared to other categories; however, we have nonetheless set a near-term target for 2030. This is due both to the significance of residential mortgages within the Bank’s lending activities and the SBTi requirement to set near-term targets for this category.

In this context, Arion Bank’s goal is to maintain these low emission levels through 2030. From 2030 to 2040, the Bank aims to achieve net zero.



Mortgages - net zero
kgCO₂e / m²



^b COWI – Green Residential Buildings



Agriculture

Agriculture is an important sector, not least for ensuring national food security. Iceland’s geographical location and geological conditions impose limitations on agricultural activities, including a short growing season and large areas of land vulnerable to wind and water erosion. The sector encompasses diverse activities such as poultry farming, egg production, horticulture, sheep farming, and horse breeding^c.

Reducing emissions in agriculture requires a range of measures, such as improving the efficiency of fertilizer use, enhancing livestock productivity, and reducing fossil fuel consumption. It is also essential to capture and store carbon from the atmosphere through initiatives such as land reclamation, afforestation, and wetland restoration^d.

Arion Bank’s agricultural loan portfolio includes companies operating across various segments. Although agriculture represents a relatively small share of the Bank’s overall lending portfolio, it ranks third in terms of greenhouse gas emissions, with financed emissions amounting to 28 ktCO₂e in 2023. Emissions from agriculture in Iceland’s national inventory primarily stem from on-farm activities, with the main sources being enteric fermentation, manure storage and application, use of synthetic fertilizers, and combustion of fossil fuels in machinery^d.

The agricultural sector within our loan portfolio consists of many small companies and farms, which limits data availability and their capacity to set measurable sustainability targets. Therefore, we also considered the national agricultural environmental policy when setting targets and engaged in constructive dialogue with the Icelandic Farmers Association.

Net zero	2040
Target by 2030	12% reduction / ISKm

Target-setting for agriculture was based on the FLAG methodology from the Science Based Targets initiative (SBTi). This approach categorizes emissions by type of agricultural production and uses production data to set targets aligned with sector-specific decarbonization pathways. Companies in Arion Bank’s loan book were grouped by primary activity, and production data were collected for categories recognized by SBTi and present in our portfolio.

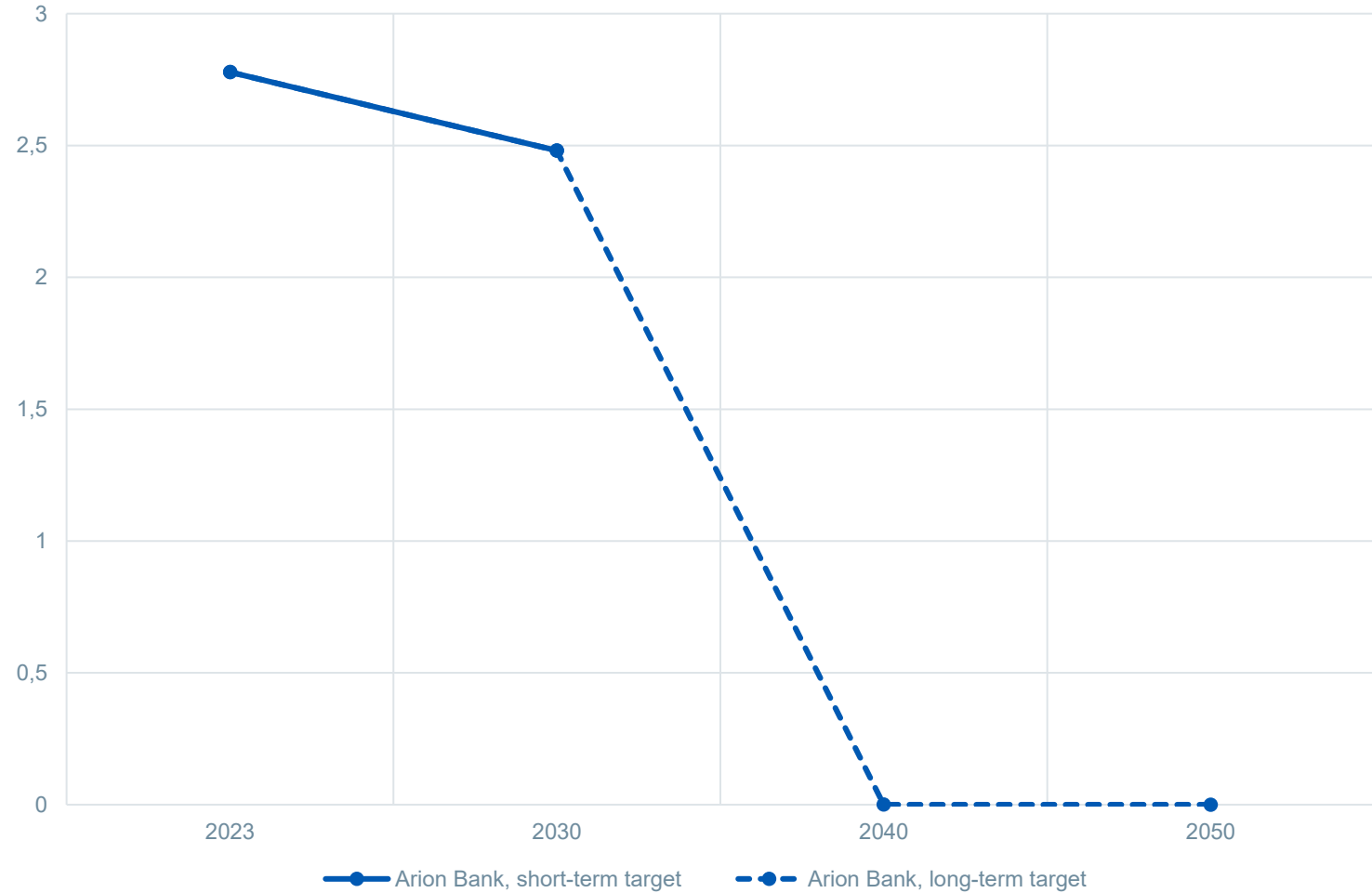
The production categories represented in Arion Bank’s loan book include dairy production, cattle farming, and poultry farming. Companies outside these categories were classified as “other”, and targets for this group were not based on production data. Target-setting using the SBTi tool is still at an early stage, as the tool was primarily designed for agricultural companies rather than financial institutions. Nevertheless, it provides valuable insights into potential overall emission reductions within Arion Bank’s agricultural loan portfolio.

Arion Bank’s target is to reduce emissions by 12% per million ISK lent to agriculture by 2030. The Bank is also considering setting targets for carbon sequestration projects, such as afforestation and wetland restoration.

^c Ministry of Industries
^d Environmental Policy for Agriculture



Agriculture - net zero
tCO₂e / ISKm



Aluminium production

Aluminium production is a significant source of greenhouse-gas (GHG) emissions. In 2022, direct emissions from the sector amounted to nearly 270 million tonnes globally^e. The industry continues to grow, as aluminium is a critical material for transportation, power infrastructure, and manufacturing, including components for the construction sector, and it plays a pivotal role in the energy transition^f.

The principal source of GHG emissions in aluminium smelting is carbon dioxide (CO₂) released from the consumption of carbon anodes during electrolysis. With today's best available technologies, there is no alternative method for primary aluminium production at scale. Accordingly, innovation is focused on two primary decarbonization routes: (i) developing inert anodes that do not react with oxygen, thereby rendering process CO₂ emissions near-zero; and (ii) capturing CO₂ from potroom and stack off-gases. The latter faces a structural challenge: CO₂ concentrations in the off-gas are relatively low and comparable to atmospheric levels, which makes currently available capture solutions technically complex and capital intensive to deploy^g.

According to the IEA, the aluminium industry must develop and deploy near-zero-emissions technologies to achieve material reductions in emissions from alumina refining and the production of both primary and recycled aluminium. In parallel, improving collection, sorting, and recycling rates is essential to reduce lifecycle emissions, requiring concerted action from both producers and their customers^e.

Net zero	2040
Target by 2030	15% reduction / producted tonne

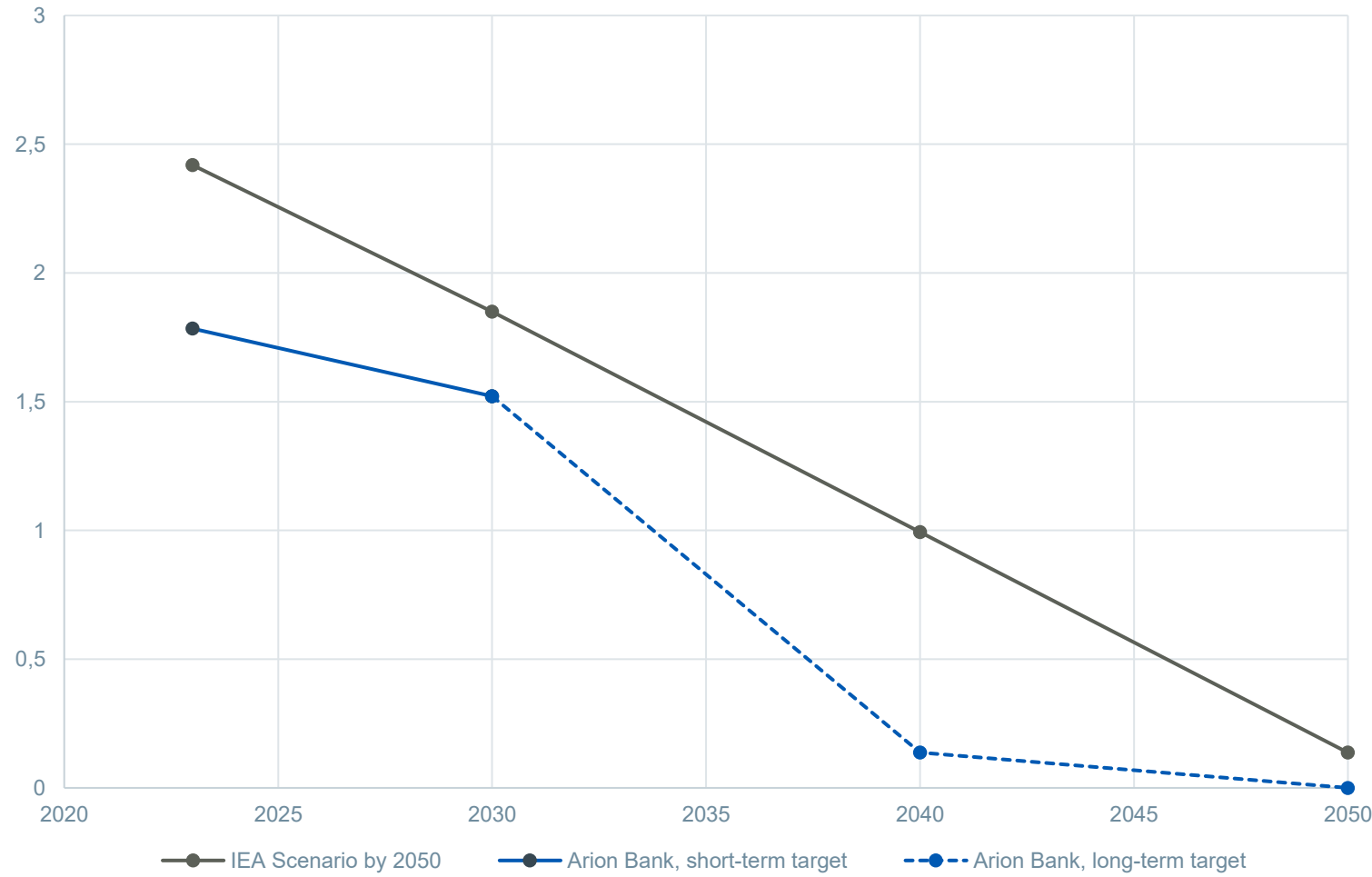
Iceland hosts three aluminium smelters. Electricity used in domestic aluminium production is sourced almost entirely from renewables, resulting in a lower emissions profile than the global average for comparable operations^h. Financed emissions from the aluminium sector within the loan portfolio amounted to 49 ktCO₂e, representing approximately 32% of total financed emissions from the Bank's corporate loan book.

For target-setting, we referenced an IEA scenario that expresses GHG performance as emissions per tonne of aluminium produced (i.e., emissions intensity). In preparing these targets, we assessed disclosures from companies in Arion Bank's loan book and held direct dialogues with aluminium producers. Production figures were scaled in proportion to the Bank's exposure to each company. The results indicate that the emissions intensity of aluminium production within Arion Bank's portfolio is lower than the trajectory implied by the IEA scenario.

As noted, Icelandic aluminium production generally exhibits a lower GHG footprint than the global average, largely due to renewable power. Nevertheless, to reach net zero by 2040, the domestic aluminium industry must continue to advance toward net zero operations, including implementing measures to capture and permanently store process CO₂ emissions.



Aluminium production - net zero
tCO₂e / producted tonne of aluminium



^e [The International Energy Agency \(IEA\) – Aluminium](#)
^f [International Aluminium](#)
^g [Norðurál](#)
^h [Samál](#) - How can aluminium smelters curb greenhouse gas emissions?



Energy production

All energy production in Iceland is renewable, resulting in generally low greenhouse gas emissions from this sector. Approximately 70% of Iceland’s energy production comes from hydropower plants and 30% from geothermal plantsⁱ.

Arion Bank provides loans to companies within the energy production sector, some of which operate power plants while others focus on building new facilities. Financed emissions from this activity in the Bank’s loan portfolio amounted to 195 tCO₂e in 2023.

When setting a target for emissions from energy production, the Bank referred to the International Energy Agency’s Net Zero 2050 scenario. This scenario is based on greenhouse gas emissions per unit of energy produced. To align with this approach, data on energy production from power plants within the Bank’s loan portfolio in 2023 was collected. Companies report figures on energy generated, and total production was scaled according to the Bank’s financing share in each company.

The results show that the emissions intensity in 2023 was approximately 0.03 kg CO₂e per kilowatt-hour (kWh) produced. Not all projects financed have commenced production, but all energy generated by power plants in the Bank’s loan portfolio is renewable.

Net zero	2040
Target by 2030	Maintain 0.03 kg CO ₂ e / kWst

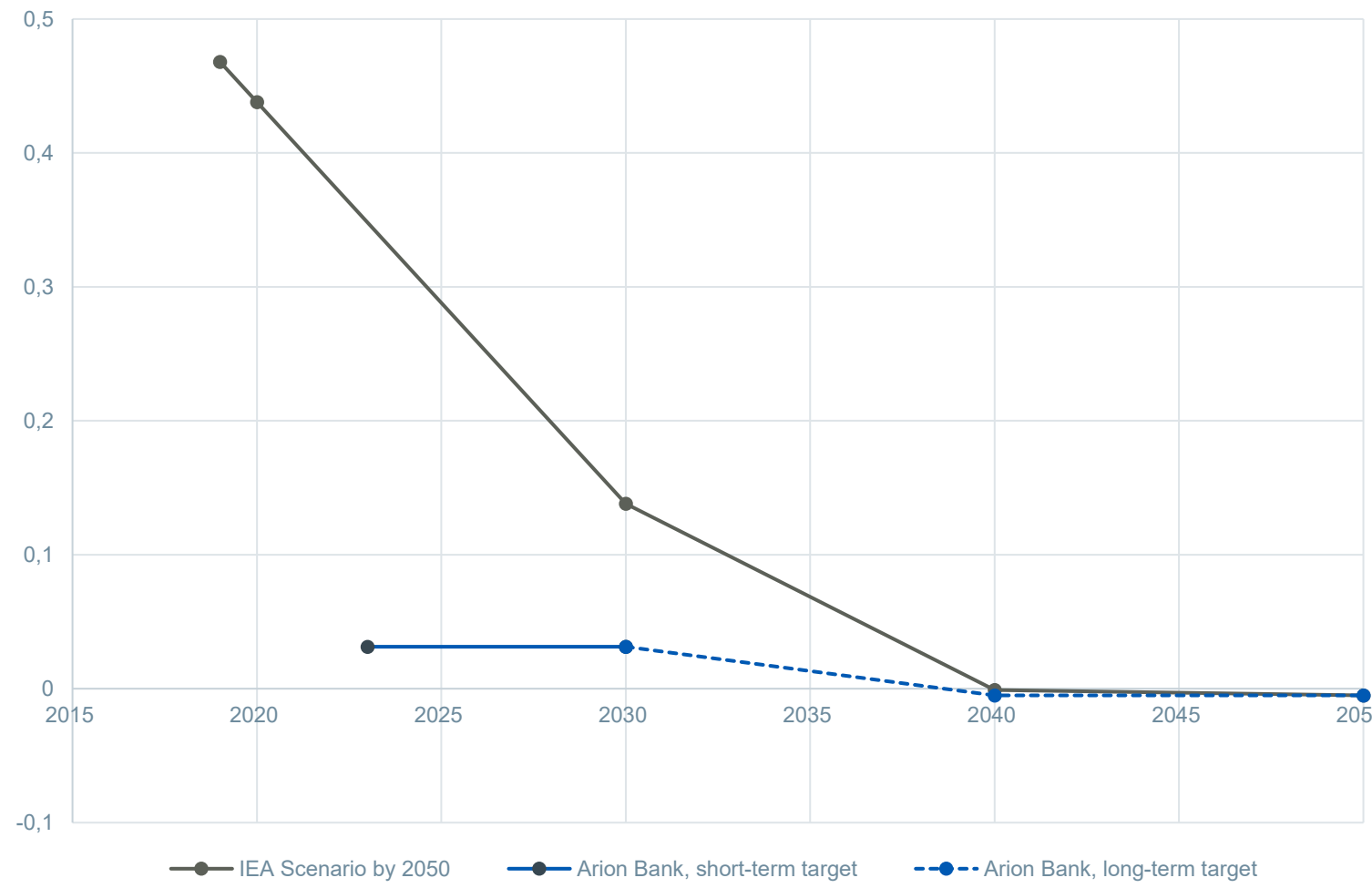
Since emissions from Arion Bank’s energy production portfolio are significantly lower than the scenario benchmark, the Bank has applied the Science Based Targets initiative (SBTi) provision allowing it to maintain low emissions in energy production until 2030, rather than setting a reduction target.

Arion Bank therefore commits to maintaining emissions intensity within energy production at 0.03 kg CO₂e per kWh. To achieve this, the Bank will continue to finance only renewable energy projects.

The Bank aims for net zero in energy production by 2040, in line with government targets. The IEA scenario anticipates negative emissions through carbon capture within the sector rather than neutrality. For now, Arion Bank sets a net zero target consistent with these IEA values.



Energy Production - net zero
kgCO₂e / kWst



ⁱ [Environment and Energy Agency](#)



Fisheries

Compared to industries with the highest carbon emissions globally, emissions from fisheries are relatively low. In Iceland, fisheries are one of the country’s cornerstone industries, comprising companies engaged in fishing, processing, aquaculture, and the sale of seafood products. Within Arion Bank’s loan portfolio, the fisheries sector is the third largest industry and ranks second in terms of greenhouse gas emissions, with financed emissions amounting to approximately 30 ktCO₂e.

The fisheries sector plays a critical role in achieving Iceland’s net zero target by 2040. To support these goals, the sector, through Fisheries Iceland (SFS), has introduced a climate roadmap. The roadmap aims to reduce greenhouse gas emissions by 55% by 2030 compared to 2005 levels. To meet these targets, companies in the sector are focusing on four key areas:

- Reducing fuel consumption in fishing vessels
- Minimizing emissions from refrigerants
- Electrifying fishmeal factories and ensuring access to electricity
- Improving waste management and promoting circularity^j.

Progress towards net zero in the fisheries sector is already well underway. The industry has invested in technology to phase out refrigerant use and implemented systems enabling fishmeal factories to run on electricity. However, limitations in electricity supply have, in some cases, necessitated the temporary use of oil.

Net zero	2040
Target by 2030	29.4% reduction / ISKm

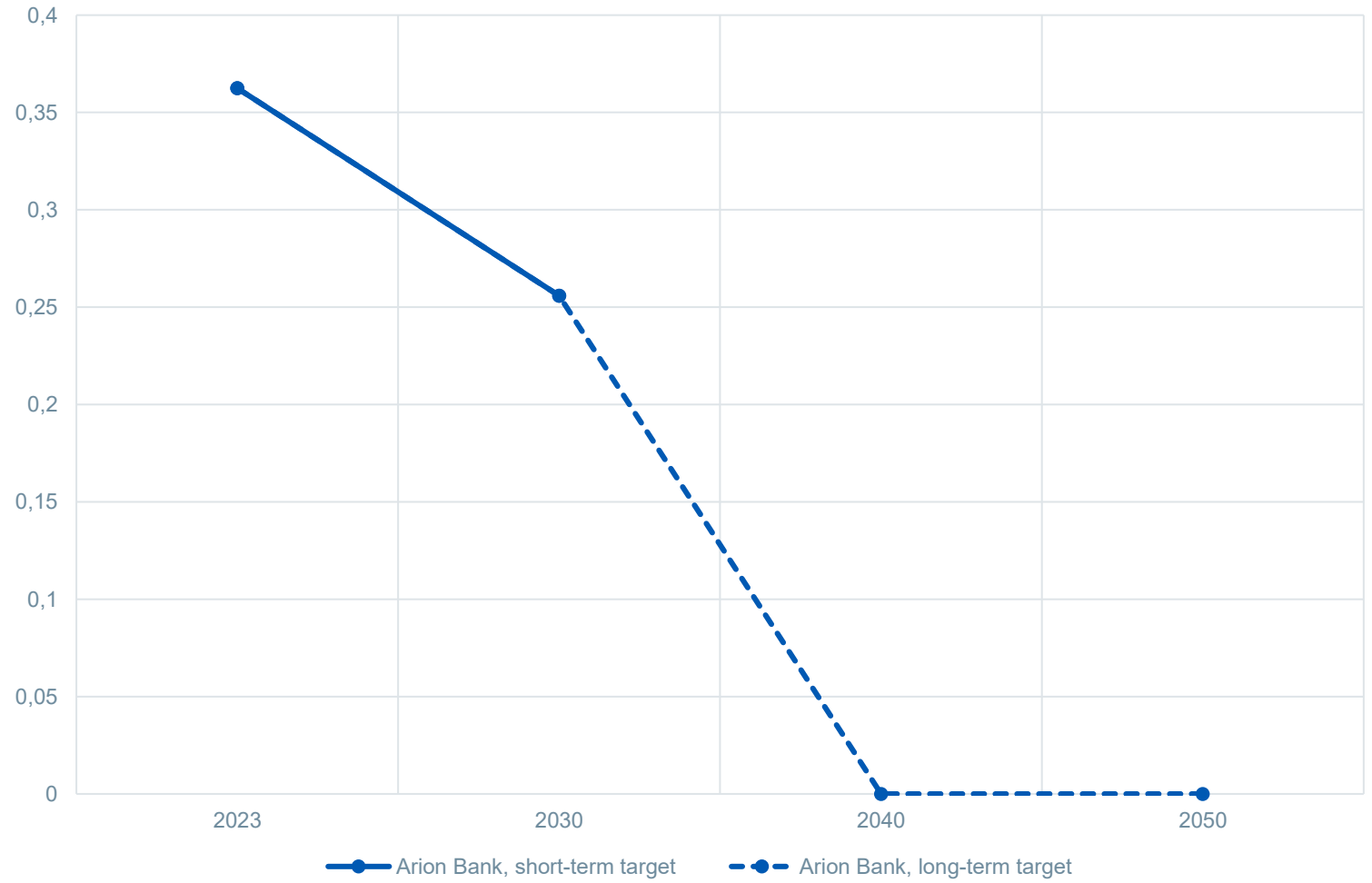
While the sector has set a clear path for reducing emissions, it urges the government to strengthen infrastructure to accelerate the energy transition^j.

We expect emission reductions in our fisheries loan portfolio to align with the roadmap’s objectives and performance. Due to the lack of global scenarios for fisheries, setting science-based targets consistent with SBTi standards has proven challenging. Consequently, our current targets may not fully meet SBTi requirements. In setting these targets, we follow SBTi guidelines on minimum absolute annual reduction, alongside the goals established by the Icelandic fisheries sector.

Arion Bank’s target is to reduce financed emissions by 29.4% per million ISK loaned by 2030 compared to 2023 levels. This target will be reviewed before submission for SBTi validation, or within two years.



Fisheries - net zero
ktCO₂e / ISKm



^j [Climate Roadmat for Fisheries](#)



Real estate

Loans in this category are granted to companies registered as real estate firms engaged in the operation and/or leasing of properties. The properties involved are either residential or commercial. Some companies also undertake property development, but this category does not include construction companies or contractors. Financed emissions from Arion Bank in this category amounted to 1.2 ktCO₂e in 2023.

When setting targets for emissions from real estate companies, the Bank referred to the International Energy Agency (IEA) scenario, which is structured as a reduction in emissions intensity per square metre^k.

To determine emissions intensity for this category within Arion Bank’s loan portfolio, data on the total square metres owned by companies in the portfolio was collected and scaled according to the Bank’s financing share. The results showed that emissions intensity for real estate companies in the portfolio was significantly lower than the IEA scenario. This is primarily due to much lower Scope 2 emissions (i.e., heating and electricity) in Iceland. Energy use in Icelandic buildings, electricity and heating, is predominantly powered by renewable energy when considering local emissionsⁱ.

Real estate companies have considerable Scope 1 emissions, accounting for about 70% of their total financed emissions. These emissions mainly stem from the combustion of fossil fuels. When setting targets, it was assumed that emissions would decline within Scope 1 due to continued electrification of vehicles by real estate companies, leading to reduced fuel consumption.

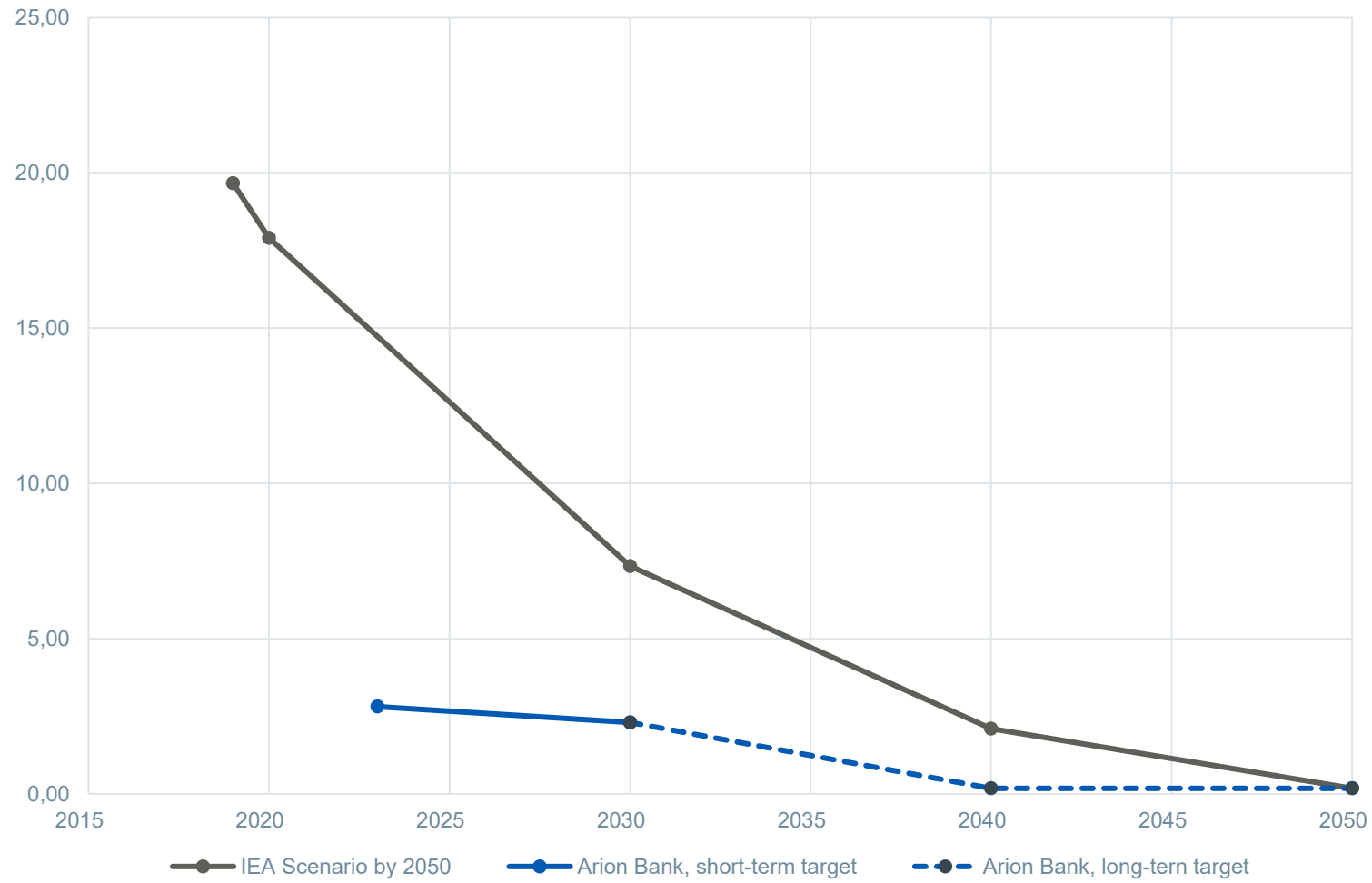
Net zero	2040
Target by 2030	18% reduction / m ²

Arion Bank’s target is to reduce financed emissions by 18% from 2023 to 2030 and for real estate companies to achieve net zero by 2040, in line with Icelandic government targets.

The main uncertainty regarding the 2030 target is that emissions data for companies in this category is largely based on estimates rather than actual figures. As a result, the electrification of individual companies’ vehicle fleets is not accurately reflected in emissions data, as would be possible if companies recorded and published their own emissions inventories. This category includes many smaller companies with limited capacity to publish environmental accounts. These factors create challenges in assessing the actual progress and impact of measures on greenhouse gas emissions within the category.



Real estate - net zero
kgCO₂e / m²



ⁱ [Environment and Energy Agency](#)
^k [The International Energy Agency \(IEA\) - Net Zero by 2050](#)



Land transport

Transport plays a vital role in modern society. Sea, land, and air transport remain heavily dependent on fossil fuels, making the development of technologies and methods to achieve energy transition in this sector critically important. The largest share of Arion Bank’s loan portfolio related to transport concerns land and sea freight, and we have therefore set targets for these categories. A portion of the portfolio covers passenger transport, but this category has not yet been fully defined to allow for target-setting at this stage. Emissions from aviation within the portfolio are negligible and will not be included in the Bank’s targets.

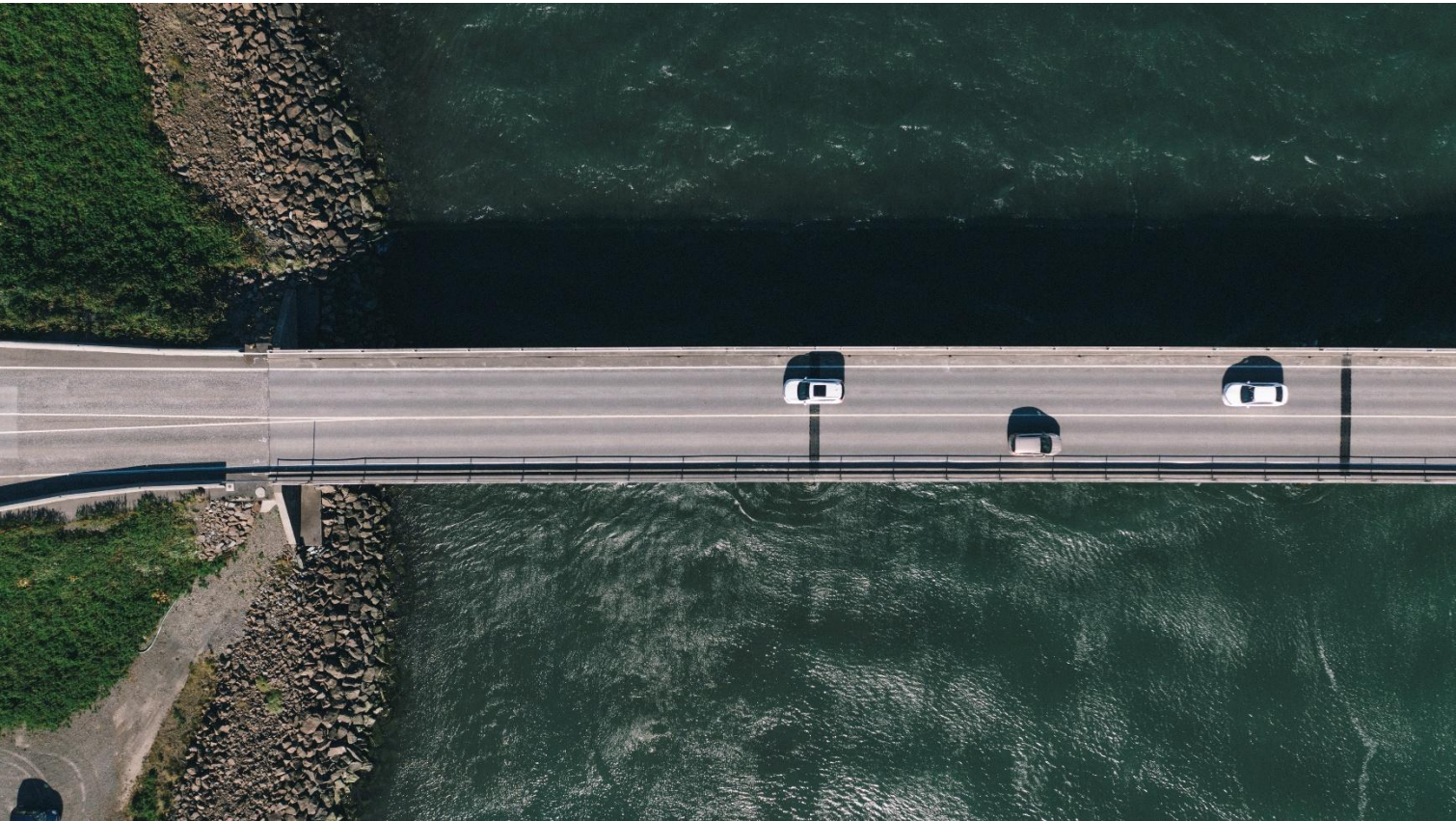
Land transport

Financed Scope 1 and 2 emissions from companies in the land transport category in Arion Bank’s loan portfolio totalled approximately 507 tCO₂e in 2023. Emissions intensity is calculated based on estimated kilometres travelled and tonnes transported during the base year in connection with the Bank’s lending activities. Emissions intensity for the base year 2023 was approximately 94 gCO₂e per tonne-kilometre (t-km).

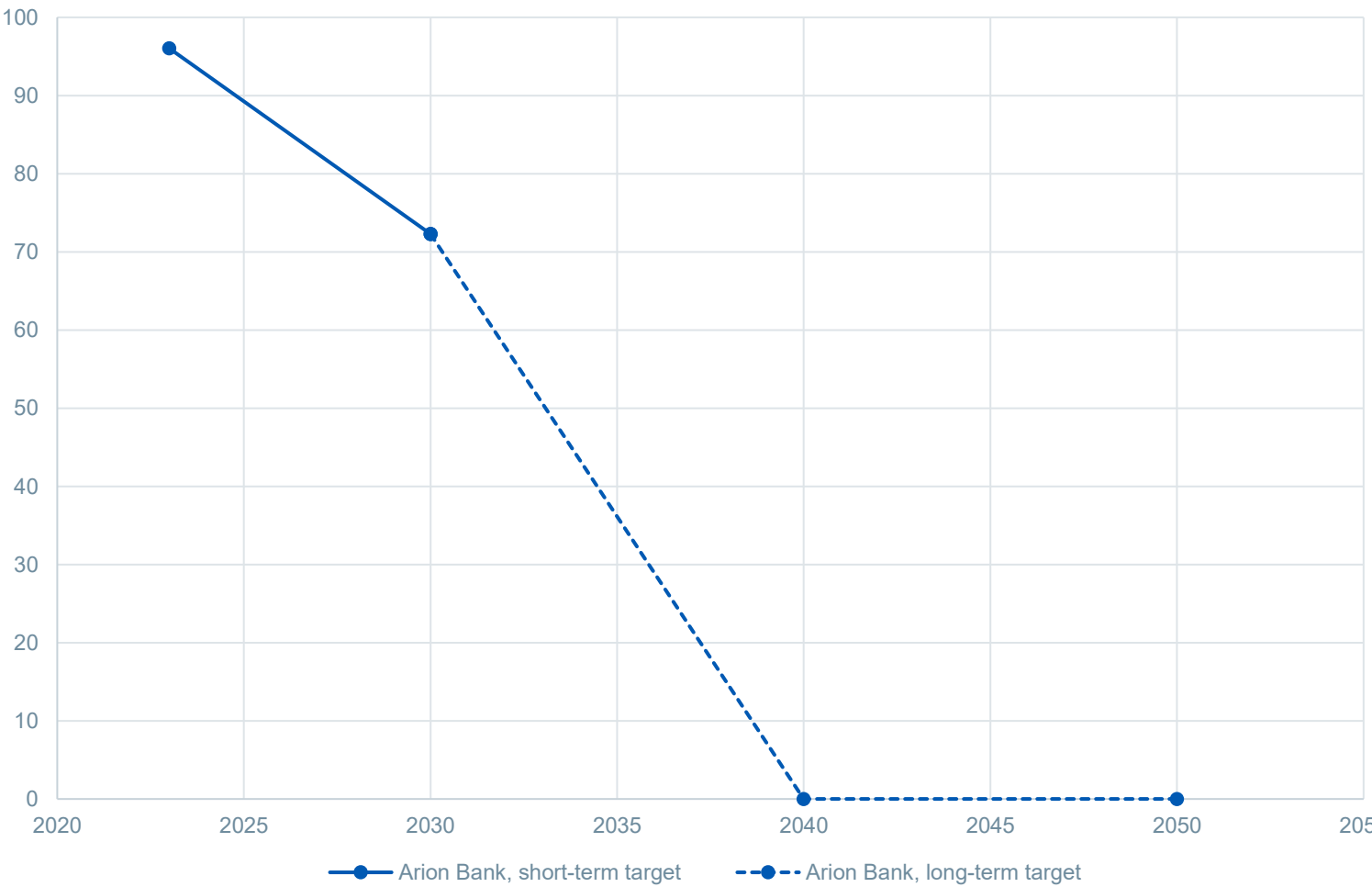
In setting a science-based climate target for land transport, the Bank used the SBTi SDA Transport Tool (version 1.1.1), which supports short-term target-setting aligned with limiting global warming to 1.5°C. For long-term net zero targets, the Bank referred to the IEA scenario and engaged in dialogue with companies in the sector.

Net zero	2040
Target by 2030	24.7% reduction / t-km

Arion Bank’s target for land transport is to reduce emissions intensity within its loan portfolio by 24.7% based on estimated kilometres travelled and tonnes transported, from 2023 to 2030. The Bank’s long-term goal is net zero by 2040.



Land transport - net zero
gCO₂e / t-km



Maritime transport

Financed Scope 1 and 2 emissions from companies in Arion Bank’s loan portfolio engaged in maritime transport amounted to approximately 3.8 ktCO₂e in 2023. Emissions intensity for maritime transport is calculated based on estimated kilometres travelled and tonnes transported by sea. The emissions intensity in the base year is significantly higher than the benchmark provided by the IEA scenario, likely due to the long shipping routes to and from Iceland and generally lower efficiency in cargo transport compared to other major routes where vessels are fully loaded and therefore more efficient.

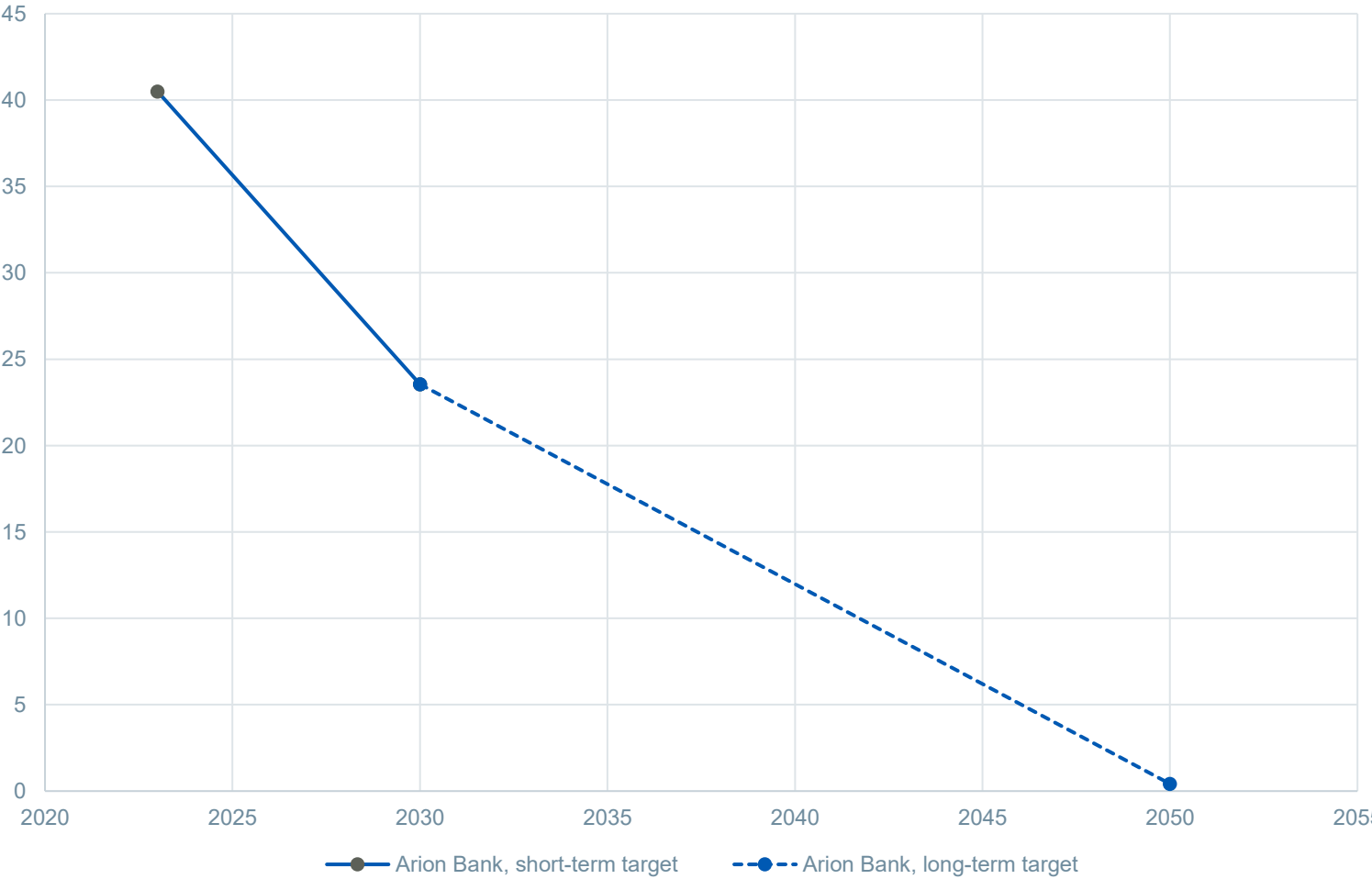
The Bank used the SBTi Maritime Transport Tool to set short-term targets aligned with limiting global warming to 1.5°C. For long-term net zero targets, the Bank referred to the IEA scenario and engaged in dialogue with companies in the sector.

Net zero	2050
Target by 2030	41.9% reduction / t-km

Arion Bank’s target for maritime transport is to reduce emissions intensity within its loan portfolio by 41.9% by 2030 compared to 2023. As maritime transport is part of international shipping and falls under the EU Emissions Trading System (ETS), the sector aims to be net zero in Iceland by 2050. Accordingly, Arion Bank sets a target of net zero in maritime transport by 2050.



Maritime transport - net zero
gCO₂e / t-km



Oil, gas and coal

To achieve the goals of the Paris Agreement, it is essential to significantly reduce the use of fossil fuels and accelerate the energy transition.

In line with Arion Bank’s climate policy and our commitment to setting science-based targets and have them validated by the SBTi, as well as to follow the NZBA guidelines, we have introduced an exclusion list. This list was published in November 2024 and outlines the activities the Bank will not invest in (proprietary investments), provide corporate advisory services to, or finance through lending. Activities included on the exclusion list comprise oil exploration and the extraction and/or mining of fossil fuels for energy production, i.e. coal, peat, natural gas, and oil.

There are no loans in Arion Bank’s loan portfolio that fall under these specified definitions. However, there is activity related to oil distribution, which is classified as resale and therefore does not fall under the 'oil and gas' category as defined by the SBTi.

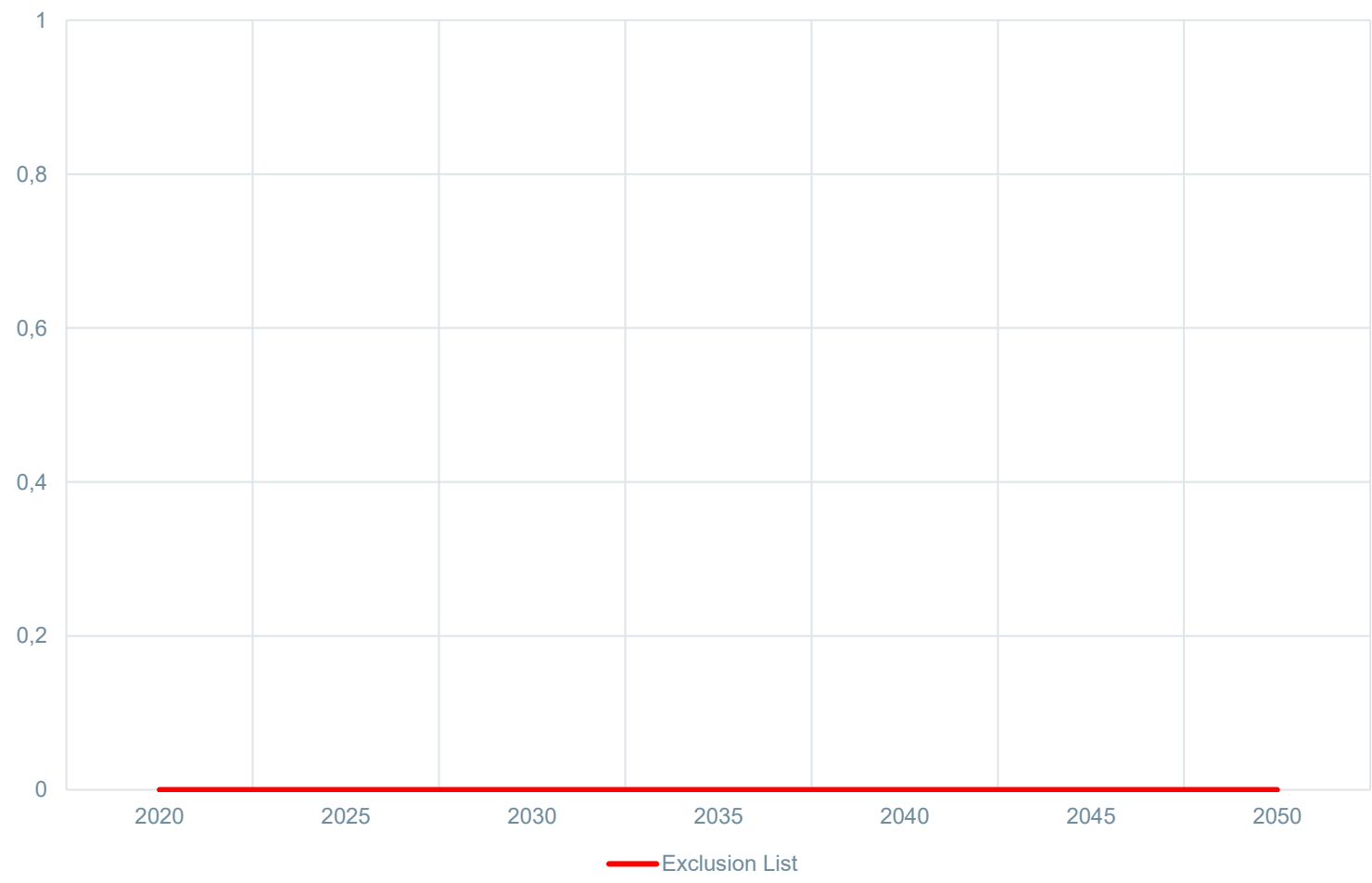
Net zero	2040
Target by 2030	Maintain 0 kg CO ₂ e / ISKm

Under the new SBTi standard for financial institutions, a dedicated oil policy is required. The Bank will develop such a policy as part of the upcoming target update to ensure alignment with the standard.

Arion Bank will continue to encourage its clients to phase out the use of fossil fuels and actively support the transition to renewable energy.



Oil, gas and coal - exclusion list
kgCO₂e / ISKm



Policy on recalculation of greenhouse gas emissions

Arion Bank has published a policy on the recalculation of greenhouse gas emissions in accordance with the GHG Protocol. This policy forms part of the requirements of the Partnership for Carbon Accounting Financials (PCAF) and the Science Based Targets initiative (SBTi).

To ensure follow-up on the progress of targets, emissions will be recalculated at the end of each year if a change in emissions is detected. The recalculation covers the base year and all years published in the sustainability accounts in the Annual and Sustainability Report, but only if significant changes have occurred. The benchmark is a 5% increase or decrease in emissions, in line with the GHG Protocol Corporate Standard.

Recalculations can be made under the following circumstances:

- **Changed methodology:** if changes to the methodology have a significant impact on emissions according to the above definition, e.g. due to updated emissions factors, changed access to data or updated calculation methods and procedures, emissions will be recalculated.
- **Changed data or errors:** if significant errors are discovered, or several minor errors which combined are considered significant, emissions for the year in question will be recalculated. Significant changes to the organization or activities of a company may also result in the recalculation of the base year.
- **Organizational changes:** if changes to the organization of Arion Bank have a significant impact on emissions, e.g. as a result of a takeover, divestment or merger, emissions will be recalculated to the best extent possible. If such changes occur mid-year, emissions will be recalculated for the whole year (both current year and base year). In the event of a merger and acquisition, the recalculation may take place up to one year after the change in order to ensure access to adequate and accurate data.

Arion Bank's sustainability committee has reviewed and approved the policy and the Bank's sustainability team is responsible for monitoring the implementation of the policy.

[The policy can be found here.](#)



Sustainability risk and management

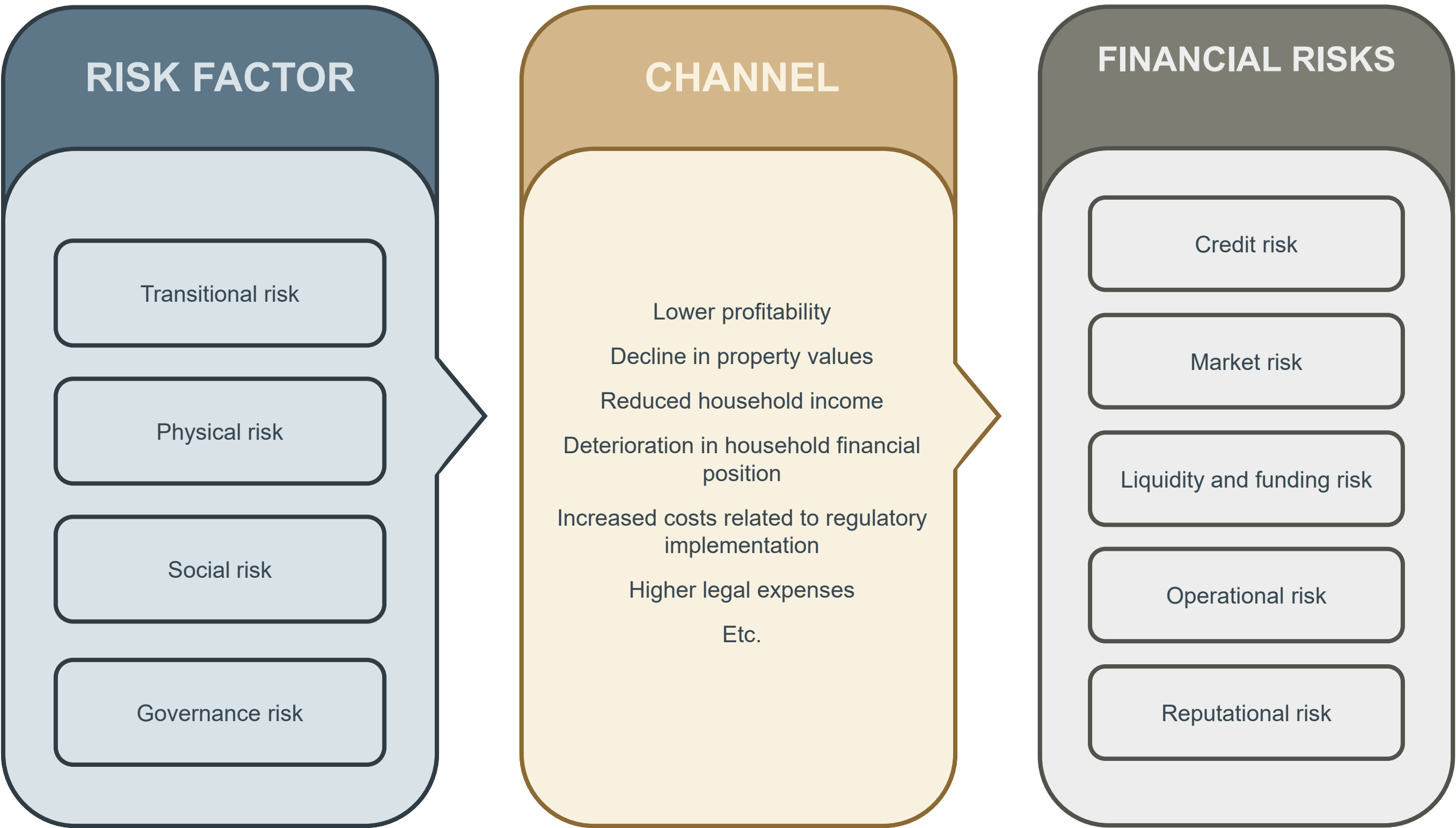


Sustainability risk

Sustainability risk is not a standalone risk category, but rather a cross-cutting risk that can amplify the likelihood or severity of other financial risks faced by financial institutions, such as compliance risk, market risk, and credit risk. Therefore, sustainability-related risk should not be treated as an isolated risk but must be integrated into the Bank’s overall risk management framework.

ESG-related risk factors (environmental, social, and governance) can affect the economy, and, in turn, the activities financed by the Bank and the financial system as a whole. These impacts may be direct—such as asset devaluation or reduced corporate profitability—or indirect, through broader macroeconomic changes. Sustainability risk can in fact be an underlying factor across multiple risk categories simultaneously. The extent of such risks depends on whether mitigation measures are introduced in a timely and effective manner, and whether the transition is managed in an orderly way.

Climate risk is generally divided into two main components, reflecting different manifestations of risk. The first is transition risk, which relates to legal, regulatory, and reputational challenges that may arise in connection with the shift to a net zero economy. The second is physical risk, which refers to financial losses resulting from the physical impacts of climate change, such as increased frequency and severity of extreme weather events, sea level rise, and long-term shifts in climate patterns



Sustainability risk

continued

The Bank is actively working to strengthen its capacity to identify and manage ESG risk. A key prerequisite for this is access to data used to assess risk, which forms the foundation for sustainability-related monitoring and reporting. Arion Bank calculates financed emissions from its loan portfolio and proprietary investments annually, in accordance with the PCAF methodology. The results of these calculations are used for further analysis, reporting, and target setting.

The data underpinning climate risk analysis is continuously evolving, becoming increasingly accurate and accessible. Despite this progress, it remains common to rely on estimates and data that are not fully precise. There is growing pressure on companies to improve data disclosure, which is essential for the Bank to conduct robust and reliable analyses.

In Iceland, many smaller companies fall outside formal disclosure requirements, resulting in continued reliance on estimates and assumptions in climate risk assessments. Nevertheless, the Bank is actively developing methodologies to identify risk factors and establish strong indicators and thresholds in line with the Board's risk appetite.

The Bank has also faced challenges in accessing data specific to Icelandic conditions, particularly in relation to physical risk and its assessment. The Bank expects that analysis of the Icelandic landscape will evolve in the coming years, including through increased collaboration with public institutions and data providers. This will enable the Bank to enhance its ability to assess physical climate risk with greater accuracy and relevance to Icelandic circumstances.

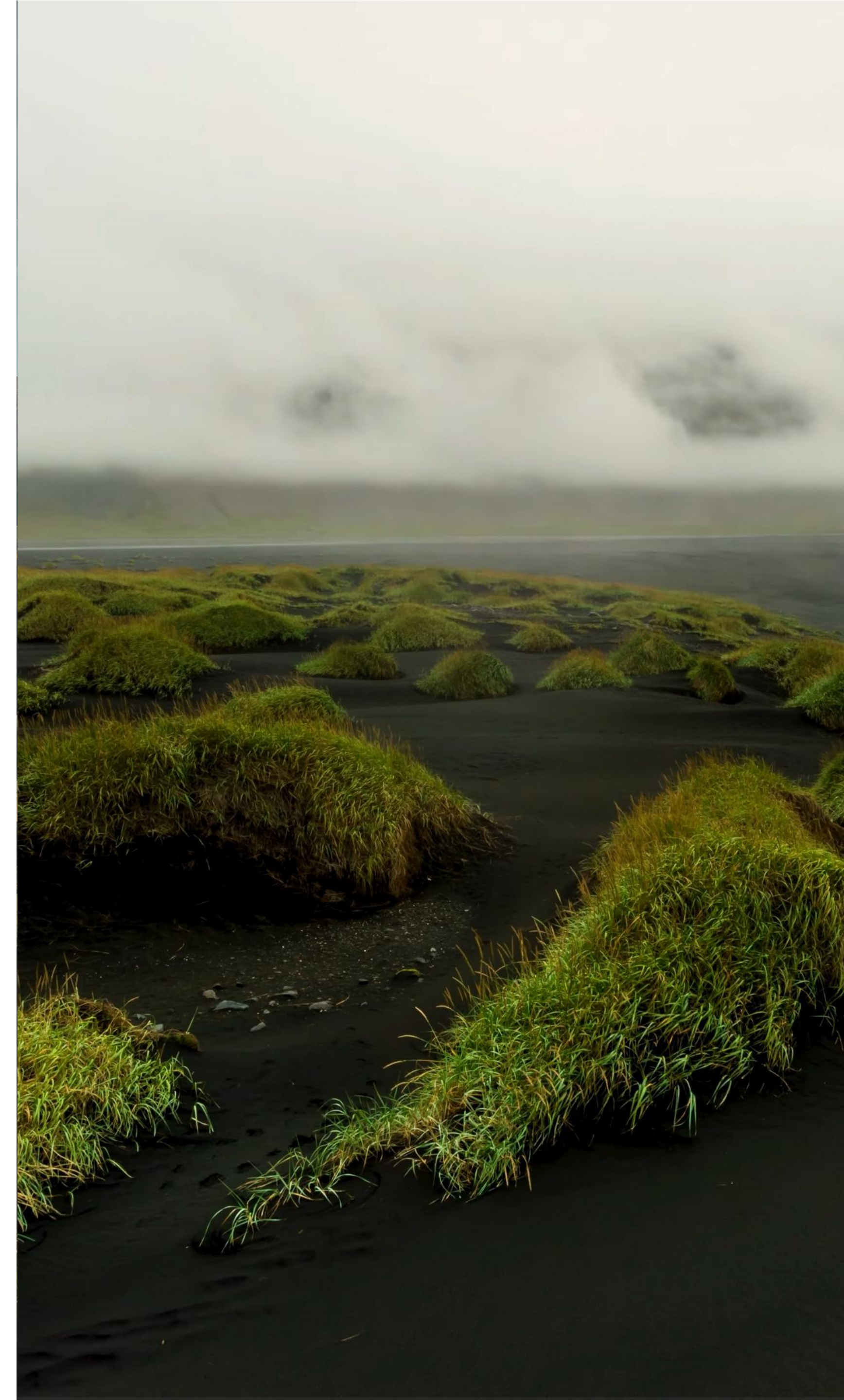
The Bank has conducted a sectoral analysis of its loan portfolio to assess ESG risk. The outcome is a heat map based on a qualitative assessment of the potential impact of various risk factors across different sectors. The analysis considers potential developments over the next 15 years. This sectoral analysis has been integrated into the Bank's credit rating system, ensuring that ESG factors are also assessed at the individual customer level.

Although the Bank has not yet fully assessed the impact of natural hazards and climate change on its operations, mitigation measures are in place, including coverage through the Icelandic Natural Catastrophe Insurance. The Bank has engaged in dialogue with the Icelandic Meteorological Office of Iceland regarding the implementation of the institution's Climate Atlas in assessing physical risk within the Bank's loan portfolio. This solution provides relevant data for Iceland, and the Bank is currently evaluating the next steps for implementation.

As previously stated, Arion Bank has issued an exclusion list identifying business activities in which the Bank will not invest (in its proprietary investments), provide corporate advisory services, or finance through lending. Through this, the Bank has defined its risk tolerance for high transition risk.

Outlook

The Bank is currently implementing the EBA's guidelines on the management of ESG risk. While the implementation process is ongoing, the Bank aims to strengthen its framework for climate risk and further integrate it into its core risk management processes. This includes deepening the current analysis of different sectors and introducing differentiated approaches to materiality assessments of risk factors, with the aim of gaining a comprehensive overview of the risks the Bank faces.



Appendix





Disclosure checklist - Net-Zero Banking Alliance

Emissions baseline and annual emissions profile			Status
Baseline	Banks shall establish an emissions baseline and annually measure and report the emissions profile of their lending, investment, and capital markets activities, following relevant international and national greenhouse gas (GHG) emissions reporting protocols and guidelines.	✓	The base year for calculations is 2023, utilizing the most recent available data. Emissions are calculated and disclosed annually in the Bank’s Annual and Sustainability Report. Financed emissions are assessed in accordance with PCAF methodology, while operational emissions are calculated following the GHG Protocol. The Bank adheres to the Science Based Targets initiative (SBTi) criteria, which require coverage of at least 67% of mandatory emission sources and a portion of optional sources. These efforts also ensure alignment with NZBA commitments
Emission coverage	The emissions profile shall cover a significant majority of a bank’s Scope 3 emissions, including the set list of carbon-intensive sectors (see below).	✓	The majority of our carbon emissions fall under Scope 3 (Category 15), primarily due to financed emissions associated with corporate lending, as well as mortgage and car loan portfolios. This component is a key element in our overall emissions calculations
Carbon-intensive sectors	Agriculture; aluminium; cement; coal; commercial and residential real estate; iron and steel; oil and gas; power generation; and transport.	✓	Our calculation of financed emissions encompasses key sectors, including agriculture, aluminium, commercial and residential real estate, oil, gas and coal, electricity generation, and transportation. In addition, the fisheries sector is included in the assessment. Other sectors referenced in the NZBA guidelines are not represented in Arion Bank’s loan portfolio.
Emissions profile metrics	This shall include, where targets have been set: <ul style="list-style-type: none">■ Absolute emissions; and■ Portfolio-wide emissions intensity (e.g., CO2 e/USD lent or invested); and■ Sector-specific emissions intensity (e.g., CO2 e/metric).	✓	We measure both the total emissions and the emissions intensity of the loan portfolio, expressed as emissions per ISK million. For specific sectors, we also apply tailored metrics, such as emissions per ton of product produced or per square meters of property.
Disclosure	Each bank shall disclose the: <ul style="list-style-type: none">■ Scope and boundary of the asset classes and sectors included (providing a rationale for the selection);■ Asset class and sector coverage of the emissions (providing a rationale for the selection); and■ Measurement method(s) and metric(s) used at portfolio, asset class or sector level.	✓	We use both visual representations and narrative explanations to illustrate the rationale behind the selection of specific categories and sectors
Targets			Status
Timeline and ambition	Intermediate (2030 or sooner) and long-term (2050 or sooner) targets shall at a minimum align with a goal to limit global warming to 1.5°C above the preindustrial average by the end of the century, be science-based and support the transition towards a net-zero economy by 2050.	✓	We have set targets aligned with the 1.5°C goal of the Paris Agreement. All tools and methodologies adopted from the Science Based Targets initiative (SBTi) are designed to support this objective. We have also defined target years—2040 and 2050—for achieving net zero, in line with international standards and commitments.
Target metrics	Intermediate and long-term targets shall be set based on: <ul style="list-style-type: none">■ Absolute emissions; and/or■ Sector-specific emissions intensity (e.g., CO2 e/metric).	✓	We set emissions intensity targets based on various indicators, such as per unit of production, quantity, distance, or per ISK million lent.
Base year	The target base year shall be no more than two full reporting years prior to the setting of the target (see Guidelines for possible exceptions).	✓	Our base year is 2023, the most recent reporting year in accordance with PCAF.
Scenarios	Banks shall disclose which scenario their climate targets are based upon (scenario name, date, and provider). Scenarios: <ul style="list-style-type: none">■ shall limit global warming to 1.5°C by the end of the century■ shall come from credible, well-recognized sources■ shall be no- or low-overshoot■ shall rely conservatively on negative emissions technologies■ shall have science-based assumptions on carbon sequestration achieved through nature-based solutions and land use change.	✓	We always specify the underlying scenario used, whether it is the IEA Net Zero scenario from May 2021 or a scenario from SBTi working documents. The fisheries sector is the only exception, as no standardized scenario currently exists for this industry, which is not specifically defined by the NZBA.
Transparency	Banks shall be transparent about: timeframes for targets by disclosing the base year and target years, selected scenarios, selected methodologies, intermediate targets, and milestones.	✓	We clearly specify the base year (2023), target year (2040 or 2050), scenarios, and methodology for each sector, as well as our short-term target for 2030.



Target coverage			Status
Emissions coverage	Targets shall cover a significant majority of a bank’s Scope 3 financed emissions, including those from all or a substantial majority of a list of carbon-intensive sectors (see below).	✓	Our analysis covers the majority of total emissions associated with the Bank’s loan portfolio and includes the sectors responsible for the highest levels of emissions.
Carbon-intensive sectors	Agriculture; aluminium; cement; coal; commercial and residential real estate; iron and steel; oil and gas; power generation; and transport.	✓	Our targets cover the key sectors identified here that are represented in the Bank’s loan portfolio.
Scope of financial activities	Targets shall cover lending activities and capital markets arranging and underwriting activities (both equity and debt) and should cover investment activities.	✓	Our targets cover both lending activities and the Bank’s own operations, but do not extend to investment activities. Financed emissions are calculated in accordance with PCAF guidelines, while emissions from our own operations follow the GHG Protocol. We comply with the requirements of SBTi, which stipulate coverage of at least 67% of mandatory emission sources and a portion of optional sources. This also ensures alignment with the criteria of the NZBA.
Inclusions	Targets shall be set and/or disclosures should be made: <ul style="list-style-type: none">■ Where data allows;■ Where methodologies (whether open-source or privately developed) exist;■ Where the sector/activity’s emissions and/or financial exposures are significant;■ Where not restricted by regulatory requirements and/or commercially sensitive or proprietary information.	✓	By adhering to the SBTi requirements—which mandate coverage of at least 67% of mandatory emission sources and a portion of optional sources—we also meet the criteria set by the NZBA.
Exclusions	Banks shall provide a rationale for the exclusion of relevant asset classes for significance, methodological or other appropriate reasons.	✓	Any exceptions are clearly indicated.
Coverage of clients’ emissions	Banks’ targets shall include their clients’ Scope 1, Scope 2, and Scope 3 emissions, where significant and where data allows. Coverage is expected to increase as data quality and client reporting improves.	✓	This refers to Scope 1 and 2 emissions, unless otherwise stated.
Automatic inclusion	Any client with more than 5% of their revenues coming directly from thermal coal mining and coal-powered electricity generation activities shall be included in the scope of targets.	✓	Coal is on Arion Bank’s exclusion list, and no financed emissions are attributable to coal.
Phase out policy	If a bank sets a phase out or an exclusion policy with a target year in lieu of an emissions target, the financed emissions of the sector/activity covered by the policy, where significant, shall still be disclosed for each year.	✓	Coal and fossil fuel extraction are on Arion Bank’s exclusion list. Nevertheless, we report annually on the status to ensure transparency.
Transition plans			Status
Transition plans	Target setting shall be supported within 12 months of publishing the targets by the disclosure of, at a minimum, a high-level transition plan including planned actions and milestones to meet these targets.	✓	Our pathway to net zero is presented here alongside the publication of our targets. Progress towards these targets will be reported on a regular basis.
Impact on the real economy	Targets shall focus on achieving an impact in the real economy.	✓	The Bank’s actions are always aimed at generating impact in the real economy.
Other considerations			Status
Governance	Targets shall be approved by the highest executive level in the Bank and should be part of broader organizational strategic plans. Targets shall be reviewed by the highest-level governance body in the Bank that normally oversees and approves the strategic plan.	✓	Targets are approved by the Bank’s Sustainability Committee, which is overseen by the CEO. The Committee is also responsible for monitoring and implementing the targets. Sustainability is an integral part of the Bank’s overall strategy, which is approved by the Board of Directors.
Review of targets	Targets shall be reviewed and, if necessary, revised at least every five years to ensure consistency with the latest science (as detailed in IPCC assessment reports).	✓	Arion Bank is committed to reviewing its targets at least every five years.
Revision of targets	Targets shall be recalculated and revised as needed to reflect significant changes that might compromise the relevance and consistency of the existing targets (e.g., material portfolio changes, methodological developments).	✓	We have published a recalculation policy that outlines when we are committed to revisiting our calculations.
Setting new targets	As each subsequent intermediate target year is approached, the next intermediate five-year target shall be set.	✓	In line with these guidance, new and updated short-term targets will be published as appropriate.
Assurance	Signatory banks are encouraged to obtain third-party independent limited assurance over the reporting on performance against targets, including the establishment of a baseline.	✗	The content of this report has not been verified by a third party.
Carbon credits	Banks shall be diligent in applying evolving leading practices consistent with published standards or frameworks on the use of carbon credits.	✓	The SBTi sets strict criteria for the use of carbon credits, which the Bank adheres to. In general, the purchase of credits is permitted, but they are not considered a measure that contributes directly to net zero. The Bank purchases carbon credits and reports them in its environmental accounts as an offsetting measure.
Implementation timeline	NZBA signatories will apply the Guidelines, including independently setting their first round of targets within 18 months of signing the Commitment and, within a further 18 months, setting targets for all or a substantial majority of the carbon-intensive sectors.	✓	Arion Bank signed the NZBA commitment in December 2023 and subsequently began work on setting targets. In this report, we present targets for the majority of high-emission sectors. Following changes to the NZBA in early October 2025, there is no longer a requirement for formal commitment or a mandatory implementation timeline.
Application of Guidelines V2	From 22 April 2024 (the effective date of application for Version 2 of the Guidelines), all new targets which are set or existing targets which are reviewed after this date shall be aligned with Version 2 of the Guidelines, with the exception of capital markets which shall be included in new targets published from 1 November 2025.	✓	The second edition of the NZBA guidelines was used in the target-setting process and the preparation of this report.

